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Cultural Factors Affecting the
Rural Development Interface of
Thai Bureaucrats and Thai Muslim Villagers

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Authoritarian Controls and News Media
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Cultural Factors Affecting the Rural Development Interface of Thai Bureaucrats and Thai Muslim Villagers

M. LADD THOMAS

There is a growing body of both scholarly and applied literature which focuses on the interface of government bureaucrats and villagers as regards rural development in Thailand.¹ However, this literature almost exclusively deals with the interaction between Thai Buddhist bureaucrats and Thai Buddhist villagers. Thus, it tends to ignore the extent to which cultural factors affect the efforts of Thai officials, most of whom are Buddhists, to undertake rural development activities in areas where the population overwhelmingly belongs to a different ethnic group. Such is the case in four provinces which are on, or near, the Thailand-Malaysia border.

Nearly one million Thai Muslims live in this subregion, accounting for almost two-thirds of the population in Yala province and more than three-fourths in each of the provinces of Pattani, Narathiwat and Satun. Like their cousins across the border, they are ethnic Malays who follow Malay customs and mostly (except for those living in Satun) speak a local dialect of Malay as their first or only language. The vast majority live in rural villages and engage in agriculture or fishing.²

There is very little social intercourse between Thai Muslims and the relatively few Thai Buddhists living in these provinces. In part, this is due to the different languages used by the two communities. A second reason lies in some of the religious beliefs and practices of the Thai Muslims. For instance, it is considered improper for Thai Muslims to attend social functions having any kind of non-Muslim religious overtones or to marry those of another religious persuasion. Another example is that they refuse to eat food prepared by non-Muslims unless they are certain that it contains no pork, that other meats have been slaughtered in the approved Islamic manner, that pork grease is not used in cooking the food, and that utensils used for preparing food have never been exposed to pork grease — considerations which tend to prevent Thai Muslims from entering the homes or attending social functions of Thai Buddhists since it is the custom of rural folk in Thailand to offer and accept food as an integral part of playing the roles of host and guest. A third reason is the fear of Thai Muslims that social interaction with Thai Buddhists would have the effect of encouraging their children to accept features of the Thai culture, thereby facilitating assimilation and the destruction of their Malay heritage. And a fourth reason is that some Thai Buddhists are prone to view the Thai Muslims as being culturally and socially inferior, speak of (as well as to) them in a condescending manner, and avoid contact with them whenever possible.³

The economic life and standard of living of most of the villagers in these provinces did not improve measurably in recent decades. This was partly due to the paucity of governmental services available to villagers. It was also attributable to such factors as growing population pressure on cultivatable land, a declining catch by fishermen from the villages located along the sea coasts, and generally low prices paid for locally produced rubber.⁴ Thus, the average real income of agricultural households in three of these provinces (Pattani, Narathiwat and Yala) increased by only ten per cent from 1962 to 1976, compared with thirty per cent for the other provinces in the southern region, and sixty per cent for the nation as a whole.⁵

In the past few years, the Thai Government has undertaken a variety of socio-economic development programmes aimed at improving conditions in the rural areas of these provinces, and other programmes are planned for the near future. These programmes include: building and staffing additional public schools in the rural areas, constructing and improving rural roads, making public health facilities more available to the villagers, building diversionary dams and establishing irrigation systems, teaching villagers engaged in rice cultivation how to double crop where such is feasible, persuading villagers to use improved agricultural techniques, and helping (through subsidies and technical advice) rubber cultivators to cut down aged trees and replant with more productive strains.⁶

The implementation of these programmes, as well as others, requires considerable interaction between the villagers and the Thai bureaucrats who are employed by national departments and stationed in the provinces. One example is the irrigation programme. While the Royal Irrigation Department constructs the dam and main and lateral concrete irrigation canals, the other facets of an irrigation system of necessity involve villagers and officials from several government agencies.

Villagers are involved in a variety of ways. For instance, they have to dig ditches from the concrete canals to the farming plots; dig drainage ditches and build dirt dikes or embankments to protect their plots from untimely flooding; select, from among fellow villagers, a common irrigator to direct the villagers in the distribution of water and the maintenance of the ditches and dikes. Furthermore, they must agree on the allocation of irrigation water and a time schedule for water distribution to each farmer. Accordingly, farmers have to establish, join, and actively participate in irrigation associations.

Villagers ideally also should undertake new forms and methods of agricultural cultivation. That is to say, they should purchase and use improved rice seeds in order to get a greater yield; be persuaded, and learn how, to cultivate other (than rice) crops for which there is a good market; be willing to invest in fertilizers and insecticides and use these properly during cultivation. Moreover, the villagers should join credit co-operatives and, in order to get the highest prices for their crops, join and operate market co-operatives.

The bureaucrats, in turn, have to carry out certain tasks which, for convenience, can be grouped into three general categories. The first is that of

arranging to compensate the villagers for lands which will be flooded by the reservoir or which will be used to build concrete canals; alerting other villagers in the irrigation area of the date irrigation water will be available; familiarizing villagers with the nature and advantage of irrigated agriculture; and persuading them to do whatever is required to participate effectively in irrigated agriculture. The second category involves such tasks as providing technical advice to the villagers on the techniques of irrigation, use of insecticides and improved seeds, and how to create and operate co-operatives. The third category pertains to communicating with villagers both on a regular basis and on special occasions in order to give information about such things as crop disease and anticipated market prices for different crops.⁷

Of course, cultural differences, in the sense that the Thai officials are much more highly educated than the rural people and tend to come from urban backgrounds, affect the interaction of bureaucrats and villagers in the implementation of such programmes even in regions where all the villagers are Thai Buddhists. However, there are other cultural factors, unique to this particular subregion, which also affect the interaction.

Of these latter factors, only the three which are most important will be discussed here. One is language difference, which hinders oral communication between the bureaucrats and the villagers. The second pertains to bureaucratic attitudes, behaviour, and the lack of cultural awareness with respect to the villagers. The third is religion as an obstacle to secular education.

Language

As previously noted, government bureaucrats assigned to work in this subregion are, with only a few exceptions, Thai Buddhists. Very few of them speak Malay, and those who do tend to speak it poorly. At the same time, most of the adult Muslim villagers in Yala, Narathiwat and Pattani either speak no Thai or only a little. Those villagers who speak somewhat better Thai are mostly youths and they are unfamiliar with even the most basic technical terms.⁸ As a consequence, meaningful communication between the villagers and the officials is difficult and often impossible.

Village and commune (a group of villages) headmen are required to visit the district office about once a month for a meeting with district level officials (district officers and their deputies, as well as representatives of technical departments such as agricultural extension, public health, and so forth). Among other things, information is given these headmen about new and ongoing rural development programmes and they are supposed to transmit this information to the villagers. The officials make their presentations in the Thai language. If there is a Muslim from the provinces among them (usually one of the clerks in the district office) he translates the information into Malay for the headmen. Otherwise, either an official who has a limited knowledge of Malay or a headman who speaks a little Thai attempts the translation.

Essentially the same thing happens when these officials visit the villages to explain the programmes/projects, to obtain the villagers' co-operation for them, or give advice on new techniques. At a general meeting for all the villagers, presentations are made in Thai and then translations are attempted — often by officials or villagers who have a poor command of one or the other of the two languages. Naturally, misunderstandings of what was said often occur.⁹

A handful of government officials, such as the community development worker, are assigned to work full-time in the communes. While they are encouraged to live in one of the villages which constitute the commune, most opt to reside in the nearest town or sanitation district (a semi-urban area) where other Thai bureaucrats live, and they commute daily to their communes. These low-level bureaucrats also rely heavily on the few villagers who speak some Thai to interpret for them. Moreover, they are prone to focus their work activities in those villages where the headman, or his assistant, speaks a little Thai, thereby more-or-less ignoring the other villages in the commune.

The community development worker, in particular, also plays a critical role in village planning for development projects which are funded by the provincial administrative organization. The village development committee determines village needs, identifies development projects to meet these needs, and, together with the commune council (which consists of representatives from the villages), determine priorities. The community development worker provides technical advice as regards identifying and describing the projects, and he is responsible for submitting the village/commune plan and priority projects in written form to the district and provincial officials. Sometimes, the community development worker, because of the language problem, fails to grasp the needs of the villagers and misrepresents their intent when he proposes a project. The result is an approved project which villagers may not want. The villagers often interpret this as a deliberate attempt by the higher authorities to revise their proposed project, and sometimes refuse to co-operate in the implementation of the project.¹⁰

The government has long been aware of this communication problem, but only within the past two decades has it taken any remedial steps. For instance, an attempt has been made to teach Malay to at least some of the Thai Buddhist officials stationed in the subregion. One programme directed toward this objective has been the sporadic Malay language training at Chulalongkorn University in Bangkok for a handful of low-level officials. It has not proved very successful because the training has been in standard Malay and not the local dialect, and because most of those who have been trained are not engaged in rural development activities (they have tended to be policemen, office clerks, and so forth). Another programme, which has been discontinued, aimed at providing part-time instruction in Malay for a broader spectrum of provincial and district level officials. This instruction was given in the provincial and district offices for two hours after each working day and for several hours on Saturday. While several officials participated in this programme, upon the urging of their superiors, only a handful finished the course. Most of them dropped out within a short time because of the

following reasons: the officials were reluctant to spend so much of their own time in study; several had to miss lessons while out of town on official business, and found it impossible to catch up on what they had missed; and most of them did not believe that attaining competency in Malay would measurably advance their career prospects.¹¹

Another step taken by the government has been to try and attract more Thai Muslims (from these provinces) into the civil service and then assign them to work permanently in the subregion. This effort has not been successful so far. As one scholar notes, there has been little change in the ethnic composition of government bureaucrats stationed in these provinces over the last two decades. As late as 1978, it was estimated that Muslims held only five to fifteen per cent of all deputy district officer positions (depending on the province), and much smaller percentages of other positions — except school teachers, where Muslims accounted for nearly twenty per cent.¹² One reason for this failure is the small pool of educated Thai Muslims from which civil service recruits might be drawn. Another reason is that entrance into the civil service is based on performance in competitive, nation-wide examinations. Thai Muslim candidates from Yala, Pattani, and Narathiwat, even though they have graduated from secondary schools and, in a few cases, universities, generally have a weaker command of the Thai language (since it is a second language which they do not begin to learn until they enter primary school) compared to the Thai Buddhist candidates. Hence, they tend to score lower marks in the examinations. Given the fact that there are relatively few openings in the civil service compared to the thousands of applicants, very few Muslims stand a chance of making the grade.

Obviously, the government could begin a positive action programme to give special concessions to Thai Muslim applicants, even though they have not scored highly in the examinations. However, this would be politically explosive in Thailand, since there are many qualified Thai Buddhist applicants who are not able to find employment in the civil service. The government is, therefore, not likely to follow this path.

Rather, the government now seems to rely on the expanded educational facilities in the subregion to eventually produce a Thai-speaking population (at least in terms of Thai becoming a second language) in these provinces. Until this happens, however, the problem of communication will continue to hinder rural development efforts.

Attitudes, Behaviour and Cultural Awareness

A majority of the Thai Buddhist bureaucrats who are stationed in the subregion stereotype Thai Muslims in a derogatory manner. For instance, they regard Thai Muslims as less hard working and less intelligent than Thai Buddhists. This is particularly true of those provincial and district level officials, both senior and junior, who have the most direct contact with Thai Muslims.¹³ Therefore, they are inclined to speak to the Muslim villagers in a condescending, indeed supercilious, way.

Consequently, this treatment affects adversely the willingness of the villagers to co-operate in the rural development projects. Furthermore, this stereotyping leads some bureaucrats to underestimate the capacity of the Muslim villagers to make significant inputs into the design of the rural development projects, to play a critical role in project implementation, and to take full advantage of income-generating projects.¹⁴

Bureaucratic behaviour *vis-à-vis* the Thai Muslim villagers also affect rural development. For instance, the Thai Buddhist bureaucrats inadvertently offend the Muslim villagers when they refer to them, in the latter's presence, as *Khaek*. In the Thai language, this term literally means "visitor", and for centuries has been used by Thai Buddhists to refer to the dark-skinned people from South Asia and Malaysia who live in Thailand. While those from South Asia clearly are immigrants or descendants of immigrants, this is not the case with Thai Muslims. Thus, the Thai Muslims resent the application of this term to themselves, arguing that they preceded the Thai Buddhists into southern Thailand by several centuries. This resentment sometimes causes villagers to avoid participating in rural development activities which involve the bureaucrats who use the term while in the village.

Another example of such behaviour is the attempt by bureaucrats to get Thai Muslims to demonstrate their status *vis-à-vis* the bureaucrats when greeting the latter. Status considerations are very important in Thai Buddhist society, and bureaucrats are considered to have a high status — certainly much higher than a villager. A common way of demonstrating one's status with respect to another person is the degree to which the head is lowered and the back bent as well as the height at which the hands are pressed together when delivering the traditional *wai* or greeting. Thai Muslims have other ways of showing recognition of status, and therefore many either forget or refuse to use the Thai Buddhist form when greeting bureaucrats. Some of the bureaucrats are offended or believe they have "lost face" when this occurs, and they avoid returning to the village or at least attempt to avoid further contact with any of the villagers except the headman.

Still another example is when bureaucrats who are visiting a Muslim village fail to manifest sufficient respect for the local *Imam* (Islamic religious leader) should they meet him. Since they are of the Buddhist faith, the bureaucrats do not believe it necessary or even proper for them to overtly show special respect for a leader of a different faith. Sometimes this provokes the *Imam*, or some of the village elders, to discourage villagers from co-operating with these officials in development activities.

A fourth example, which occurs occasionally, is when an over-zealous bureaucrat, who is supervising a development project in the village, urges villagers to continue working on the project during prayer time. The villagers believe that this behaviour shows a lack of respect for their religion, and thereafter they tend to ignore the instructions and advice given by the official.

Some of this dysfunctional behaviour is deliberate, but much of it can be attributed to a lack of cultural awareness (that is, awareness of Islamic beliefs and practices and local Malay customs) on the part of Thai Buddhist officials. Thus, an

attempt by one community development worker to get villagers to construct (with funds provided by the government) new, enclosed outdoor toilets failed miserably because the project design called for some of the toilets to be built in such a way that a person, when squatting over the seat, would have his back to the general direction in which Mecca (the Holy City in the Islamic religion) is located.¹⁶ This lack of cultural awareness also explains why from time to time some bureaucrats try to extrapolate from their experience in Thai Buddhist villages by persuading the Buddhist clergy to tell the villagers that they will earn merit (a step towards personal salvation) if they contribute their labour in rural development projects. Religious leaders in the Thai Muslim villages refuse to do this because there is no comparable notion of merit, or at least the same type of merit, in the Islamic religion.

Having become increasingly cognizant of the problems caused by the attitudes, behaviour and lack of cultural awareness on the part of many bureaucrats assigned to work in the subregion, the authorities at the Administrative Centre for the Southern Border Provinces in Yala have recently taken steps to improve the situation. The Centre started a training programme for officials newly assigned to the subregion, but until 1984 or so it trained only junior officials, and the curriculum contained minimal instruction on Thai Muslim culture. Now the curriculum has been expanded to cover this culture somewhat more extensively, and to alert trainees on how their attitudes and behaviour can affect their interaction with the Thai Muslims. At the same time, special seminars and conferences for more senior officials are being held and these usually include a section dealing with the same subjects. The Director of the Centre has also been given the responsibility for co-ordinating the projects and activities of all of the government departments which are operating in the subregion in order to, among other things, make certain that these projects take into account the constraints imposed by the local culture. And the Director has been authorized to exercise a measure of administrative control over all bureaucrats in the region, partly so that he would be in a position to recommend that disciplinary measures be taken against the bureaucrats who continue to offend Thai Muslim sensitivities.

This emphasis is still too new to determine whether it is achieving the desired result. Moreover, it remains to be seen whether the Centre's next Director will be as vigorous in implementing the emphasis as the present one. Equally significant is the need to devote an even larger proportion of the training curriculum and conference programme to these matters (attitudes, behaviour and cultural awareness), and there seems little likelihood that this will be done in the immediate future, given the perceived need to spend most of the time on development needs, security considerations, and so forth.

Religion as an Obstacle to Secular Education

Until recently, the vast majority of rural Thai Muslims in the subregion either received no secular education or, at most, four years of primary schooling. In part,

this was because there were few public schools in the rural areas. Many villages had no primary schools, and where there were such schools the classes were only up to the first four grades. Small secondary schools existed only in some of the district centres and in all of the provincial capital towns.

However, another reason that more Thai Muslims did not attend public schools was that Thai Muslim parents tended to be very concerned about the need for their children to receive instruction in the Islamic religion. Therefore, the parents of those children who did complete primary school preferred either to have their children drop out of the educational system at this point and spend two or more hours per day getting religious instruction from the village *Imam*, or, if the parents could afford it, to send the children to a *pondok* (a rural Islamic religious school) for more formal religious teaching.

The result was that most rural Thai Muslims were either illiterate, or were only barely literate, in Thai. Many who had gone through primary school lost most of their literacy in the Thai language within a few years after leaving school, since there were few, if any, books, magazines or newspapers in the village.

Once the government decided to emphasize rural development in the sub-region, it recognized that this situation would have to be remedied. That is to say, it realized that human resource development is both a prerequisite to, and an integral part of, rural development.

It has addressed the first cause of the problem by allocating sizeable resources for upgrading existing educational facilities as well as constructing and staffing new public schools in the rural areas of these provinces.¹⁷ Consequently, today there is a primary school in nearly every village and about fifty per cent of these schools offer instruction up to the sixth grade. The others, which give instruction up to only the first four grades, are being expanded into six-year schools at a rapid pace. Moreover, for the first time middle schools (that is, grades seven through nine) are being built in the countryside. Eventually, there will be one middle school for each commune or, in some cases, one for every two immediately adjacent communes. By late 1982, these middle schools had been built, or were being constructed, in about twenty-five per cent of the communes in the subregion.

More interesting, for the purposes of this paper, is the twofold approach being employed by the government to deal with the religious obstacle to secular education. One facet of this approach entails persuading local Islamic religious leaders to accept the conversion of *pondoks* into what are now officially referred to as special private religious schools which offer mandatory instruction in certain secular subjects (Thai language, social studies, mathematics, etc.) as well as religious instruction.

At first, several of the religious leaders were intensely suspicious of the motives of the government as regards this conversion programme — fearing that the real objective was to weaken the hold of Islam in the subregion. Accordingly, they either passively resisted implementation of the programme or, in a few cases, appeared to raise indirectly the threat of violence as an instrument for blocking implementation. Attempts by Thai Buddhist officials to convince the recalcitrant

religious leaders to co-operate were essentially non-productive, until they began to rely on two or three Thai Muslim bureaucrats (including one key official in the Ministry of Education) who were well educated and known to be devout Muslims, and who enjoyed considerable prestige within the Thai Muslim community. These latter officials met with small and large groups of religious leaders, explaining the need for more Thai Muslim youths to study secular subjects in order to cope with modernization as it spread throughout the countryside and to be able to obtain employment in the towns and cities. At the same time, they pointed out that secular instruction was included in the curricula of religious schools in many other countries where the population were of the Islamic faith.

The arguments of these officials proved persuasive. Thai Muslim parents also increasingly manifested a desire for their children to get further secular education beyond primary school. Therefore, by the beginning of 1983, most of the *pondoks* had been converted and were offering courses in secular subjects in addition to religious instruction.¹⁹

The second facet of the approach was directed towards public schools. In 1981–82, the government began a programme whereby optional instruction in the Islamic religion was made available to Thai Muslim youths in public primary and secondary schools within the subregion.²⁰ The instruction was in the Thai language, and was given by special Thai Muslim instructors paid by the Thai Government. These instructors must have a sufficient command of the Thai language to be able to teach the religion in Thai and they must have received several years of formal training in the Islamic religion. Therefore, they are recruited from among Thai Muslims who have graduated from the converted *pondoks* (as well as Islamic religious schools in the larger towns which had also converted) which offer a secondary education up to the twelfth grade.²¹

By the end of 1982, this programme was operating in about twenty per cent of the primary schools, and in a few secondary schools, in the subregion. If funding is increased as expected, the programme will eventually be expanded to cover most of the primary schools and all of the secondary schools. Preliminary indications are that it has been well received by the Thai Muslims — there has been a sizeable increase in Thai Muslim attendance in those schools where the programme is operating.²²

Conclusion

The cultural factors discussed in the foregoing have clearly had an impact on the rural development interface of Thai Buddhist bureaucrats and Thai Muslim villagers in southern Thailand. Governmental attempts to cope with these factors have met with mixed results. The religious factor seems to be disappearing with the governmental efforts to provide Thai Muslims with a secular education. In contrast, the problem of language remains as an obstacle to communication between the bureaucrats and the villagers — despite modest efforts by the government to deal with this problem. However, the advances now being made in

terms of providing a secular education to Thai Muslims will eventually lead to most young Thai Muslim adults having a reasonably good command of the Thai language. When that stage is reached, the problem of communication will largely cease to exist.

Less certain is the impact of the government's current effort to change the attitudes and behaviour of Thai Buddhist bureaucrats assigned to the subregion, and to make them more sensitive to the local culture. The major difficulty is that it is impossible to tell as yet whether the activities of the Centre for Administration in Yala are really changing the attitudes and behaviour of most bureaucrats. Moreover, new officials are constantly being assigned to these provinces and they bring with them notions of the stereotype Thai Muslims as well as ignorance of the local culture. Since the Centre cannot simultaneously train all of these newly stationed officials, many work at their jobs and interact with Thai Muslim villagers for months, sometimes a year or more, before they receive any kind of orientation or training by the Centre. During this period, some of them are likely to offend Thai Muslims to such an extent that rural development projects will be jeopardized. Accordingly, this cultural factor clearly continues to serve as a significant determinant to the success or failure of some rural development projects.

NOTES AND REFERENCES

1. For example, see *Thai Local Administration: A Study of Villager Interaction with Community and Amphur Administration*, a study prepared for the United States Operations Mission to Thailand under Contract No. AID 493-319 (Port Washington, Pennsylvania: Educational and Technical Services Division, Operations Research Department, Philco-Ford Corporation, 1968); Clark D. Neher, *The Dynamics of Politics and Administration in Rural Thailand* (Athens: Southeast Asia Program, Center for International Studies, Ohio University, 1974); Herbert J. Rubin, *The Dynamics of Development in Rural Thailand* (DeKalb: Center for Southeast Asian Studies, Northern Illinois University, 1974).
2. M. Ladd Thomas, "The Thai Muslims", in *The Crescent in the East*, edited by Rapheel Israeli (London: Curzon Press, 1982), p. 156.
3. *Ibid.*, pp. 156-57.
4. *Ibid.*, pp. 157-58.
5. Astri Suhrke, "Southeast Asia: The Muslims in Southern Thailand", in *Protection of Ethnic Minorities: Comparative Perspectives*, edited by Robert G. Wirsing (New York: Pergamon Press, 1981), p. 321.
6. Some of these programmes had been started in these provinces, albeit on a modest scale, by the late 1960s. They were expanded in scope, and other programmes were begun in the late 1970s and early 1980s. It should be noted that most of these programmes are also under way in the rural areas of other Thai provinces.
7. These specific interactions between the bureaucrats and the villagers have to occur when a new irrigation system is developed anywhere in Thailand — at least anywhere that the villagers are not already familiar with irrigated agriculture. See Chakrit Noranitipadungkarn and M. Ladd

- Thomas, "Research Management as a Requisite for Irrigation Development in Northeast Thailand Stemming From the Pa Mong Dam", *Thai Journal of Development Administration* (November 1972), pp. 221-22.
8. Most older and middle-aged Muslim villagers either are unable to speak Thai or speak only a few words. In large measure, this is because they either did not attend a public school or at most went to such a school for only four years and had since lost their limited literacy in Thai. Nearly all of the younger generation have had at least four years of public schooling, and some have had seven years. Those who have completed seven years usually retain a basic working knowledge of Thai. The very few who have completed a secondary education usually move to more urbanized settings rather than return to their villages.
 9. One example of a breakdown in communication due to language differences occurred in a village where the district officer had supplied a pump to provide water from a nearby river for irrigation purposes and had persuaded the villagers to experiment with double cropping of rice. At a meeting in the village, the district officer and agricultural officer had explained the need for fertilizer and pesticide in double cropping. But due to the language difficulty, the villagers misunderstood — believing that they had been told that these inputs were necessary only for the first, and not the second, crop. When the second crop turned out badly for two years in a row, the villagers abandoned the experiment.
 10. In point of fact, district and provincial officials sometimes do revise proposed projects. But on other occasions, the seeming revision represents an inadvertent mistake made by the community development officer due to language difficulty.
 11. The normal career path for government bureaucrats, except the clerks, is to be moved from province to province throughout the country every few years. Since the next assignment of these officials might be in a Thai-speaking province elsewhere, they saw little point in studying Malay.
 12. See Suhrke, op. cit., pp. 321-22.
 13. M. Ladd Thomas, "Bureaucratic Attitudes and Behaviour as Obstacles to Political Integration of Thai Muslims", *Southeast Asia* 3, no. 1: 552-60. Data on these attitudes were obtained by the author, while doing field research in the subregion in 1966-67, when he interviewed 108 Thai Buddhist officials stationed in the four provinces and Songkhla (where about 20 per cent of the population is Thai Muslim).
 14. For instance, some district-level officials in the subregion told the author in 1982 that they had to guide villagers in selecting rural development projects, to design the projects, and to handle nearly all aspects of project implementation because the villagers were incapable of doing so. Officials from one district indicated that they urged the villagers to request relatively simple projects such as improving the cleanliness of the village on the grounds that the villagers would be too lazy to engage in new and improved forms of agricultural projects (income-generating projects) because of the effort required and because they tended to be satisfied with their present forms of agricultural cultivation — even though their income from these forms may be very low.
 15. The author encountered such instances on three different occasions when he was doing research in the subregion — in 1967-77, 1975, and 1982. On each occasion, a district-level official indicated in a personal conversation that this was the real reason (as opposed to the official reason) that he was providing no or little assistance to a particular village.
 16. The author encountered this situation when he visited the village in question in 1966 and was told by villagers why they refused to participate in the project.
 17. Governmental expenditures for primary education in the subregion in recent years have exceeded those for most other parts of Thailand. See Thomas, "The Thai Muslims", p. 170; and also, Suhrke, op. cit., p. 332.
 18. Information on the recent construction of new schools was obtained by the author in an interview in 1982 with the Director (a Thai Muslim) and key staff members of the Yala Provincial Non-Formal Education Centre.
 19. This information was obtained by the author in 1982 in formal interviews and informal discussions with fifteen government officials, including two Thai Muslim officials, stationed in the subregion

and familiar with the effort to introduce secular education into the curricula of rural religious schools. It was confirmed through informal discussions with more than a dozen Thai Muslim religious leaders.

20. A policy decision to undertake this programme actually was reached by the government some time in the late 1970s, but it was only in 1981-82 that funding was made available to begin the programme.
21. The system of public and private education in Thailand consists of six years of primary schooling, three years of middle school, and three years of high school. The three years of middle school and three years of high school constitute secondary education.
22. No statistical evidence could be obtained by the author to support this conclusion. But several public education officials independently told the author in late 1982 that such an increase had taken place.

Regulating the Transfer of Technology: An Analysis of Malaysia's Experience

CHEE PENG LIM

Introduction

Technology may be defined as knowledge used in the production, commercialization and distribution of goods and services. For this reason, technology has often been regarded as an important mechanism for increasing productivity. Thus, developing countries, such as Malaysia, perceive technology underdevelopment as one of the most serious constraints in their efforts to advance the level of economic development. However, these countries recognize that time and costs do not allow them the opportunity to develop and generate all the technology they need to achieve their development objectives. Therefore, many of these countries have opted for imports of technology as a less expensive and speedy means of accelerating the use of science and technology.

Initially, the trade in technology was free from government restrictions. Licensors and licensees were at liberty to negotiate and draw up the agreed terms for the transfer of technology. However, in recent years, a number of countries, particularly those in the Third World, have imposed regulations on the transfer of technology. The reasons for government intervention in the technology market are already well known and have been referred to in various UNCTAD reports.¹ They can be summarized as follows: given the imperfect features of the technology market, particularly when the recipient firms are from developing countries, suppliers have taken advantage of their position to impose a variety of limitations on access to technology and to charge high prices for transferring technology, necessitating large payments of royalties and technical fees.

The economic rationale behind government intervention arose not only from the imperfect features of the technology market but was also based on the assumption that the monopoly rents enjoyed by technology suppliers could be reduced without affecting the eventual supply. The supply of technology, when directed to developing countries, was supposed to be generally inelastic to price variations.² The recipients of technology were basically victims of the strong bargaining position enjoyed by the suppliers, and would therefore welcome any government intervention to reduce the costs of importation.³

In addition to helping the recipients of technology to increase their bargaining position, government action was justified for overall economic and technological reasons. The balance-of-payments situation has been of concern in several countries and has often been the first reason to motivate government

intervention. It has also been important to strengthen the local technological capacity by encouraging the unpackaging of imported technology and avoiding restrictions on the recipients regarding their economic and technological activities.

One country which accepted the need for government action was Malaysia which formulated specific regulations and established an institutional machinery to monitor the transfer of technology. This regime has been in operation for several years so it is possible to make a preliminary assessment of the Malaysian experience under a regulatory framework for the transfer of technology.⁴

Such an assessment could be particularly useful for those countries which have not yet implemented any specific regulation to deal with technology imports and might wish to learn from the experiences of a country in this field. At the same time, those countries which have taken the first steps in regulating transfer of technology transactions might profit from the comparison and use such an assessment to improve the effectiveness of their regulatory framework.

Cost of Technology Transfer

The trade in technology transfer is not an insignificant transaction amongst countries, even in Southeast Asia. According to a United Nations Centre for Transnational Corporations' estimate, multinational corporations (MNCs) received payments totalling US\$14 billion in 1978 for the transfer of technology through contractual arrangements. By 1985, it is estimated that the figure will be US\$40 billion, with the developing countries paying approximately, US\$6 billion.⁵

Within Southeast Asia, Thailand remitted US\$58 million in 1981 for technology payments, while the Philippines paid \$68 million in the same year.⁶ In Malaysia, a total of 635 technology agreements were signed during the period 1970 – 80 and it has been estimated that these agreements involved a total payment of at least US\$500 million.⁷

Another significant feature of technology trade in this region is its very rapid growth. Between 1972 and 1981, technology imports into Thailand increased more than eightfold from US\$6.8 million to US\$57.9 million. The same trend has also been observed in Malaysia. Between 1975 and 1978, Malaysia's outflow of payments related to technology increased by 116 per cent. In the case of the Philippines, technology payments in the form of royalties and technical fees increased sixfold from US\$5.81 million in 1972 to US\$37.59 million in 1981.⁸

The experience of newly industrialized countries suggests that payments for technology tend to increase as a country industrializes. For instance, between 1962 and 1972 the number of contractual agreements concluded by enterprises in Korea increased from 2 to 60 agreements per year, and continued to increase at an accelerated pace, from 65 in 1974 to 296 contracts in 1978. In value terms, technology payments nearly doubled, from US\$58.1 million in 1977 to US\$107 million in 1981.⁹

In short, payments for technology not only involve large sums of money, but these payments are also increasing rapidly for many countries. But even these

large payments do not by any means cover the total costs of technology transfer since such costs do not include payments for machinery and equipment. In addition to these direct costs of technology transfer, there are also the indirect or implicit costs, which may include:

1. Overpricing of inputs of intermediate goods, some of which may not have a market price;
2. Charges through profits on capitalization of know-how, by equity participation in place of, or in addition to, other payments for technology. Dividends on such holdings are in part, therefore, payments for the technology transferred;
3. Charges through part of the repatriated profits of wholly-owned subsidiaries, or joint ventures, the establishment of which does not make specific provision for payment for the transfer of technology;
4. Charges for capital and other technical equipment imported, the price of which normally allows for the exporters' valuation of the technology embodied.

Although the indirect costs are monetary costs and can be evaluated, they are very difficult to estimate. They may be as large or even larger than the direct costs, depending on the terms of the technology transfer. In any case, there is no doubt that the transfer of technology does involve a large sum of money.

In view of the above, the issue of regulating the transfer of technology assumes added significance. The aim of this study is to present some empirical evidence from Malaysia, using data obtained from a study of nearly 400 sample agreements which were registered with the Technology Transfer Unit in the Ministry of Trade and Industry, Kuala Lumpur.

Malaysia's Policy on Technology Transfer

Malaysia does not have a national science and technology policy although it is in the process of formulating one. The task of planning, co-ordinating and developing activities related to science and technology is entrusted to the Ministry of Science, Technology and Environment. In 1975, the government established the National Council for Scientific Research and Development with the primary objective of monitoring, evaluating, and co-ordinating scientific and research development. Another major co-ordinating body is the Co-ordinating Council for Industrial Technology Transfer, which was formed in 1977. The main task of this Council is to identify the priority sectors for development and to formulate technology transfer plans and policies as well as to monitor the technology developments of the country. In addition, there are a few other national committees and central agencies, such as the Economic Planning Unit (EPU), the Implementation and Coordinating Unit (CICU), and the Ministry of Trade and Industry, which exercise strong influence on technology issues.

The major agency involved in the implementation and promotion of technological development in Malaysia is the Standards and Industrial Research Institute of Malaysia (SIRIM). Generally, however, SIRIM is more concerned with the formulation of standards than the development of technology, although in the

last few years it has broadened its activities following the establishment of various industry specific technology centres. All in all, it appears that SIRIM's development has been on an *ad hoc* basis — a reflection perhaps of the absence of a national science and technology policy. In the absence of such a policy, the government's attitude towards the transfer of technology is shaped by historical experiences and responses to changing circumstances rather than by any clearly defined long-term objective. This will be seen when we discuss Malaysia's policy on technology transfer. But before doing so, we will take a look at Malaysia's links with foreign investments because this has been an important factor in the evolution of the country's policy on technology transfer.

The Malaysian economy is heavily dependent on foreign investments. This may be a legacy from the early days when Malaysia was a British colony. At that time most of Malaysia's foreign investments came from Britain and were in the plantation and mining industries.¹⁰ Since independence in 1957, both the source and pattern of foreign investments have changed. Apart from Britain, investors from other developed and even developing countries have invested in Malaysia. Today, Japan is the largest foreign investor in Malaysia after Singapore.¹¹ Unlike the pre-independence era, foreign investments have spread to other sectors of the economy, especially manufacturing. So far, Malaysia has succeeded in attracting over 600 MNCs to invest about US\$1.3 billion in its economy.¹² These include some of the largest and best known names in international business and manufacturing, such as Matsushita Electric Industrial Co., Toray Industries and Sumitomo (from Japan); Exxon, Motorola and Goodyear (from the United States); ICI, Unilever, and Dunlop (from the United Kingdom); and Robert Bosch, Siemens Aktiengesellschaft, and Nordmende (from West Germany).

The widespread presence of MNCs in the Malaysian manufacturing sector may be explained by the favourable attitude of the Malaysian Government towards MNCs. The government generally welcomes foreign investment, particularly in joint-venture projects and recognizes that MNCs will continue to play a major role in Malaysia's industrial development. MNCs are welcomed not only because they help to supplement Malaysia's capital resources but also because they are able to provide much needed technical and management expertise, as well as links with established home markets. Malaysia hopes to make full use of the good connections of the MNCs to develop a broad-based export-oriented industrial sector.

Although the Malaysian Government welcomes foreign investment it has also tried to increase domestic participation in the manufacturing sector. In fact, one of the objectives of the New Economic Policy is to reduce the share of foreign equity in the corporate sector to 30 per cent by 1990.¹³ To achieve this objective, the Malaysian Government has laid down a set of guidelines on foreign equity participation. Broadly, there are no strict limitations on capital ownership although the government encourages local equity participation. However, companies which sell all their products in the local market are required to have majority local equity participation. If the projects depend substantially on the

domestic market, foreign participation, if necessary, will be allowed up to 30 per cent of the total equity of the project. Foreign ownership of export-oriented companies may be as high as 100 per cent, depending upon the extent of the export business and negotiations with government authorities. Consequently, despite the Malaysian Government's efforts to increase domestic participation in the corporate sector, foreign investors still control about half of Malaysia's corporate investment.¹⁴

Apart from its guidelines on foreign equity participation, the Malaysian Government also tries to regulate the transfer of technology. However, like the guidelines on foreign equity participation, attempts to control the transfer of technology were introduced only in the late sixties. Before then, the activities of foreign investors were largely unrestricted and technology transfer proceeded without any inhibition. Following the adoption of the New Economic Policy, however, the government felt that it was desirable to regulate the activities of foreign investors. It also realized that the unregulated inflow of technology would tend to perpetuate Malaysia's dependence on foreign expertise. It might also create technological and economic problems, which would impair the development of local technology and economic development generally. Thus, the government has to ensure that there is a reasonable balance between the promotion and regulation of imported technology.¹⁵ In order to do this, the Ministry of Trade and Industry screens all agreements signed by Malaysian companies with their foreign collaborators.¹⁶ It is a standard requirement that all manufacturing projects licensed by the Ministry should obtain the prior written approval of the Ministry before entering into any agreement with foreign partners. Newly licensed investors are required to lodge a copy of any formal licensing or other technology transfer agreement with the Ministry of Trade and Industry (MTI) and the Malaysian Industrial Development Authority (MIDA).

The above is done to ensure that agreements do not put the licensee in a weak bargaining position or require him to pay excessive fees for the know-how he wishes to acquire. Another reason for screening such agreements is to ensure that they do not contain provisions which would be prejudicial to the national interest with regards to the transfer of industrial technology. Technology transfer agreements may take the form of joint-venture agreements, technical assistance agreements, know-how agreements, licence agreements, patent and trade mark agreements, sales commission agreements, or turnkey contracts.

The following guidelines have been drawn up by the MTI on technology transfer agreements:

1. Definition: The technology transfer agreement must define in detail the technological content and principal features of the technology, anticipated production, quality and specification of products, and particulars of technical assistance and the manner in which they are to be provided.
2. Access to improvements: The technology to be supplied should incorporate the latest developments known to the supplier, and innovations and breakthroughs in technology, including new patents applied for or registered.

3. Remuneration for technology: Payments can be in the form of a fixed lump-sum fee, "running" royalty, or a combination of the two. However, payment based on net sales is preferred. Royalty is imputed in relation to the level of technology and principal elements of transfer. A rate between one and five per cent of net sales can be considered. The practice of itemizing services under separate agreements and capitalizing know-how fees and royalty are discouraged.
4. Duration and renewal: The duration of agreements should be adequate for full absorption of technology. The life of any patent relating to the technology is also taken into consideration. An initial period of five years is normally approved and any renewal is subject to the prior approval of the Ministry.
5. Training: Adequate training must be provided at the technology suppliers' plant facilities, as well as in the local plant.
6. Patents and trademarks: Whenever patents and trademarks are involved, they must be explicitly defined. Where the life of the patent extends beyond the duration of the agreement, an arrangement should be made for the continued use of the patent after the expiry of the agreement.
7. Confidentiality: Confidentiality of information should be confined to the duration of the agreement only.
8. Guarantee: The agreement should define guarantee with respect to the production capacity, product quality and specifications and other features of the manufacturing process.
9. Taxes: Normally a tax of 15 per cent is levied on payments made to the foreign supplier of technology. Where there is a double taxation agreement, exemption can be obtained.
10. Governing laws and arbitration: Agreements to be drawn up must conform to Malaysian laws.

In order to assist local investors, the MTI has drawn up a check-list for negotiating technology licence agreements. The aim of the checklist is to explain some of the preliminary steps in negotiating a licence agreement as well as to highlight the important provisions usually incorporated in such an agreement.

At the preliminary stage, the local investor is advised to assimilate adequate information regarding the project, such as basic data on the economic feasibility of the contemplated project, details on raw materials and inputs required, and phasing of the manufacture contemplated, and patents, if any. The investor is also advised to make a proper selection of the technology and the licensor. The technology selected should be commercially viable and not obsolete. Alternative technologies available should be properly evaluated and where the technology has to be obtained from a particular country, a comparative evaluation should be made. In selecting a licensor, the investor is advised to evaluate the licensor's position *vis-à-vis* other licensors, assess the licensor's experience and capability, obtain information on the size of operations and the nature of product mix (where the licensor is a manufacturer), and ascertain the licensor's past licensing experience.

In drawing up the licence agreement, the licensee is advised to incorporate provisions relating to the principal features of the technology or process being acquired, access to improvements during the agreement period, specific guarantees, remuneration, duration, exclusivity, patents, sales territory, sub-licensing, confidentiality, procurement of components and intermediate products, currency provisions, assignability, training, trade marks, most favourable licence clause, inspection of licensee's books and reporting by licensee, government law, termination, language, arbitration and *force majeure*.

The Technology Transfer Unit

The policy of screening and approving agreements in Malaysia date back to 1968 when the Investment Incentives Act was introduced. Prior to 1968, firms were required to submit agreements to Bank Negara Malaysia (Central Bank of Malaysia) under the Foreign Exchange Control Act to obtain approval for the remittance of royalty payments abroad. At that time, agreements submitted were not subjected to a proper screening process since Bank Negara Malaysia was only concerned with the amount of payments remitted abroad. Bank Negara Malaysia sometimes referred the agreements to MTI for comments but such an arrangement was not institutionalized. In any case, at that time the MTI did not have suitable staff to pass critical comments on the agreements submitted to the Ministry.

The Investment Incentives Act of 1968 was designed to attract industrial investment by providing total or partial tax relief to companies investing in new enterprises or expanding existing ones. The most important type of relief granted was pioneer status which, depending on the level of the companies' fixed capital investment and other criteria, allowed total exemption from income tax and development tax for two to eight years.

Companies granted pioneer status were subjected to certain conditions, one of which required them to submit to the MTI all agreements signed with other firms for approval. Initially, the scrutiny and approval of agreements took quite a long time. The delay might have been due to two major factors. Firstly, the MTI did not have any specialized unit or staff to screen the agreements. Lacking the expertise, the MTI often had to refer various aspects of an agreement to different government agencies. For example, Bank Negara Malaysia was often asked to comment on the form of payment, while the Registry of Trade Marks might be asked to comment on clauses relating to the use of trade marks.

Secondly, the agreements were screened by officers responsible for their respective industry groups within the MTI. Since these officers had other more urgent responsibilities, the agreements were not immediately attended to. Another unfortunate consequence arising from this arrangement was the lack of co-ordination in screening procedures among the various officers and the inability of any officer to develop any special expertise in screening agreements. As a result, many problems arose, not the least of which was the delay in approving the agreements.

In 1975, the Industrial Co-ordination Act was introduced requiring all manufacturing enterprises employing 25 full-time workers or more and with an investment of M\$250,000 or more to apply for a manufacturing licence. The licence was given subject to certain conditions, one of which read as follows:

The company shall not enter into any agreement particularly for starting-up operations, technical know-how and assistance services (including employment of expatriate personnel), management, purchasing, marketing, payment of royalty, patent and trade-marks, without the prior written approval of the Ministry of Trade and Industry.

The above condition shall not apply in respect of purchases of machinery requiring the services of technical personnel from the machinery manufacturers to oversee the installation or starting-up operation of the machines concerned.

Following the implementation of the Industrial Co-ordination Act in May 1976, a Technology Transfer Unit (TTU) was established in the MTI for the specific purpose of screening agreements.¹⁷ Officers in this unit specialized in evaluating agreements and were specifically trained for this purpose.

The TTU screens all types of agreements signed by companies licensed under the Industrial Co-ordination Act. The agreements include not just technical, management, trade-mark, and marketing agreements but also joint-venture agreements and agreements of companies undergoing restructuring, amalgamation, merger, and so forth. In addition, the Unit also studies and processes investment guarantee agreements and liaises with international organizations on matters relating to technology transfer.¹⁸ In carrying out this function, the TTU advises local companies on the MTI's guidelines on agreements and assists local companies in their negotiations with licensors. Finally, the TTU also participates in international forums on the transfer of technology.

Initially, the TTU was to be given a complement of five officers, one of whom was to head the TTU while the other four would each take responsibility for the agreements of certain industry groups. Unfortunately, the TTU was never allocated its full complement of staff and is presently grossly understaffed with only two officers. The officers are in their early thirties and were appointed within the last ten years. Both of them graduated from local universities, and neither of them has a legal background. According to the TTU, a legal qualification is not necessary and may even be undesirable since a lawyer tends to focus on the legal rather than the economic aspects of an agreement. In any case, the TTU can refer any legal problem to the legal advisers in the MTI.

The work of the TTU begins when a company submits an application for a manufacturing licence. In doing so, it is also required to submit three sets of any draft agreement which it intends to sign with a licensor. The application for a manufacturing licence is reviewed by the Action Committee on Incentives while the draft agreement is processed by the TTU. The agreement is first recorded,

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registered and filed. Then it goes to the Head of the TTU for a general review before it is sent to the Processing Officer. In processing the agreement, the officer concerned studies the project report and evaluation made by MIDA to get a clear picture of the project — its viability and its contribution to the country's economy. The agreement is then evaluated within the framework of the guidelines laid down by the MTI. Following the evaluation, the officer contacts the licensee to seek clarification on certain points in the agreement or suggests certain amendments, deletions, and additions to the draft agreement. Subsequently, the officer sends his evaluation to the Head of the TTU for further action. The Head will then discuss the evaluation with the officer if he disagrees with it, or if there is no disagreement recommends approval or otherwise to the Licensing Officer (who is the Secretary-General of the MTI). The TTU then informs the applicant of the decision. If the agreement is approved, the applicant is required to send a signed copy of the agreement to the MTI for verification. In cases where the terms of the agreements are not in line with the Ministry's guidelines or where certain conditions are considered unfavourable to the licensees the MTI can approve the agreements on the condition that the terms and provisions are amended as required. If a licensee feels that the conditions imposed by the Ministry are unacceptable, he can put up an appeal, giving detailed grounds for the appeal. The agreement will then be reviewed again in the light of the appeal and referred to the Licensing Officer who will then be asked to make a final decision. Finally, the approved agreement is recorded in the company's agreement card containing various particulars of the agreement.

Once an agreement is approved by the MTI, none of its provisions can be changed nor the agreement renewed without the prior approval of the MTI. The time taken by the TTU to process an agreement may vary from one week (if there is no problem with the agreement) to a year if complicated problems arise. In the latter case, it may be due to delay on the part of the licensee to provide adequate data or an appeal by the licensee to have the original provisions in its agreement reinstated.

The TTU has screened a total of 783 agreements up to 1983. Table 1 shows that the MTI has classified 52.4 per cent of these agreements as technical and know-how agreements; 11.7 per cent as service agreements; 5.2 per cent as trade-mark agreements, and 2.3 per cent as basic engineering agreements.

Table 2 shows the distribution of agreements, by country of licenser. Japan accounts for 31.8 per cent of the agreements, the United States 10.3 per cent, and the United Kingdom 13.5 per cent. These three countries account for nearly 56 per cent of all the agreements signed.

Finally, Table 3 shows the distribution of agreements by industry groups. Most of the agreements are signed by the electronic and electrical, chemical, fabricated metal, motor vehicle, and shipping industries. These four industries account for nearly half of all the agreements signed.

TABLE 1
TYPE OF AGREEMENTS (1975-83)

Type of Agreement	1975	%	1976	%	1977	%	1978	%	1979	%	1980	%	1981	%	1982	%	1983	%	Total	%
1) Technical Assistance and Know-how	27	46.6	30	56.6	21	63.6	48	58.5	54	62.1	57	50.0	64	48.9	48	51.1	61	46.6	410	52.1
2) Management	12	20.7	7	13.2	7	21.2	11	13.4	13	14.9	13	11.4	6	4.6	10	10.6	13	9.9	92	
3) Joint-venture	6	10.3	6	11.3	4	12.1	7	8.5	8	9.2	14	12.3	22	16.8	14	14.9	14	10.7	95	12.1
4) Service	12	20.7	5	9.4	1	3.0	12	14.6	8	9.2	6	5.3	7	5.3	2	2.1	7	5.3	60	7.7
5) Trade Marks/ Patents	1	2.0	5	9.4	—	—	4	4.9	4	4.6	4	3.5	8	6.1	8	8.5	7	5.3	41	5.2
6) Basic Engineering	—	—	—	—	—	—	—	—	—	—	5	4.4	5	3.8	4	4.3	4	3.1	18	2.3
7) Other	—	—	—	—	—	—	—	—	—	—	15	13.2	19	14.5	8	8.5	25	19.1	67	8.6
TOTAL	58	100	53	100	33	100	82	100	87	100	114	100	131	100	94	100	131	100	783	100

SOURCE: Ministry of Trade and Industry (MTI).

TABLE 2
AGREEMENTS, BY COUNTRY (1975-83)

Country	1975	1976	1977	1978	1979	1980	1981	1982	1983	Total	%
Japan	22	21	7	32	21	32	35	33	46	249	31.8
United Kingdom	10	6	4	13	11	20	17	6	19	106	13.5
USA	6	4	1	9	8	11	14	10	16	81	10.3
India	3	5	8	7	5	5	4	4	4	45	5.7
West Germany	—	1	4	6	11	9	11	10	2	54	6.9
Australia	3	2	1	—	4	10	5	6	2	33	4.2
Hong Kong	1	—	3	3	2	9	2	3	2	25	3.2
Singapore	3	2	2	1	2	4	7	5	3	29	3.7
France	2	4	—	—	2	1	7	—	4	20	2.6
Italy	1	1	—	1	1	2	—	—	—	6	0.8
Panama	—	—	3	—	1	1	—	1	—	6	0.8
Switzerland	—	—	—	2	1	—	3	1	2	8	1.0
Norway	—	—	—	—	1	1	—	2	1	5	0.6
South Korea	—	1	—	1	—	—	—	2	4	8	1.0
Others	7	6	—	7	17	9	26	12	24	108	13.8
TOTAL	58	53	33	82	87	114	131	94	131	783	100

Note: Others include agreements signed with Malaysian companies.

SOURCE: Ministry of Trade and Industry.

Reducing the Direct Costs of Technology

Before the establishment of the TTU, Malaysian licensees generally had to pay a higher direct cost for technology. This is because foreign licensors generally insist on a higher rate of payment. Furthermore, the method of calculating the payment was to the disadvantage of the licensee who, in addition, might also be asked to make other payments. The licensors also try to maximize their gains by insisting on agreements extending for an indefinite period. We begin by examining the rate of payment before and after the introduction of technology transfer regulations.

Before 1976 there was no guideline on technological payments. Consequently, many unscrupulous licensors took the opportunity to impose the maximum payments for their technology. Such payments might be in the form of a lump-sum, or a running royalty, or a combination of both. The running royalty was generally more common and was based on the value of sales. Before 1976, some unscrupulous licensors insisted on using gross sales as the basis for calculating payments. This was unfair to the licensees since gross sales included a number of items which had nothing to do with the imported technology — for example, sales tax. But even when net sales was used for the calculation some licensors tried to exclude certain items in obtaining the value of net sales. For example, in one agreement the licensor wanted the excise duty to be excluded in the calculation of net sales. Naturally, this would inflate the value of net sales and thus the amount of royalty payments.

TABLE 3
AGREEMENTS, BY INDUSTRY GROUP (1975-83)

Industry	1975	1976	1977	1978	1979	1980	1981	1982	1983	Total	%
Electronic & Electrical	17	9	5	21	15	19	16	19	15	126	16.1
Fabricated Metal	8	3	5	7	16	6	14	7	12	88	11.2
Chemical	3	—	4	19	8	11	21	5	15	86	11.0
Motor Vehicles and Shipping	5	4	—	5	7	10	11	11	31	84	10.7
Food	4	7	2	2	7	8	12	1	37	50	6.4
Textiles	6	7	2	4	—	8	5	2	5	39	5.0
Basic Metal	—	5	3	3	5	7	10	13	5	51	6.5
Scientific & Optical Equipment	2	6	1	5	4	5	—	3	5	31	3.9
Pulp, Paper Printing	4	1	6	5	4	—	—	4	1	25	3.2
Rubber & Leather	6	—	1	2	5	8	14	2	7	45	5.7
Non-Metallic	1	6	1	1	7	5	4	16	9	50	6.4
Palm Oil & Petroleum	1	—	—	8	3	6	3	3	4	28	3.6
Hotel	—	5	1	—	2	4	2	4	8	26	3.3
Plastic	1	—	2	—	3	5	6	1	2	20	2.6
Other	—	—	—	—	—	2	3	3	5	24	3.1
TOTAL	58	53	33	82	87	114	131	94	131	783	100

SOURCE: Ministry of Trade and Industry.

After 1976, the TTU insisted that all payments should be based on net sales, and this would be defined as gross sales less sales discounts or returns, transport costs (including freight), insurance, duties, taxes and any other charges. Generally, the TTU does not accept any other less favourable definition.

In the past, when agreements did not involve any technical assistance fee, some licensees were asked to pay the salaries of experts sent by the licensors. Even when agreements involved technical fees, the licensees had to pay the living and other expenses of the experts. Some licensors took advantage of these payments to request either outrageous salaries for their experts or inflated expenses and generous facilities for them, or in some cases, both.

Since 1976, the TTU has laid down a set of guidelines relating to the salaries and expenses of experts sent by licensors. Firstly, only reasonable salaries and expenses for the experts would be approved. Secondly, the expenses should not include any extra payment for the services of the experts since this is already included in the royalty. Thirdly, the payment should only begin from the date that the experts assume duties and not their date of arrival in Malaysia. Fourthly, fringe

benefits for experts should be kept to a minimum. The above guidelines have helped to minimize the cost of employing foreign experts for local licensees.

Finally, some licensors tried to prolong the period of payment of royalties by insisting on agreements without a definite duration. Such agreements would ensure a continuous flow of royalties to the licensor even after the technology had been completely transferred or had become obsolete. If agreements of an indefinite duration were not possible then the licensors would request that the agreement should last for a minimum period of ten years or more and that such agreements be renewed automatically when they expired. There were 23 perpetual agreements out of a total of 391 agreements in the sample which we studied (Table 4). In addition, there were 4 agreements with a duration of 20 years or more, excluding the numerous agreements which had been renewed continually. However, since 1976, the TTU has insisted that an agreement should have a duration of no more than five years. Thus, as Table 4 shows, most agreements are now limited to a maximum period of five years. In addition, an agreement cannot be renewed automatically. The renewal has to be approved by the TTU which will only do so if there are good reasons for the request.

TABLE 4
NUMBER OF SAMPLE AGREEMENTS, BY DURATION OF AGREEMENTS

<i>Duration of Agreements</i>	<i>No. of Agreements</i>	<i>Percentage of Total</i>
1 year or less	20	5.1
2 years	11	2.8
3 years	25	6.4
4 years	3	0.8
5 years	245	62.7
7 years	7	1.8
10 years	29	7.4
12-19 years	5	1.3
20 years or more	4	1.0
Perpetual	23	5.9
Not stated	19	4.9
	391	100.0

Reducing the Indirect Costs of Technology

Even if the direct costs of technology were not excessive, the technology agreements might still be onerous to the licensees if the licensors impose various

restrictive provisions in the agreements. These restrictions may impede exports or try to confine the technology transfer to the recipient. In the following subsections, we discuss some of the more common types of restrictive practices imposed by licensors before they were amended or deleted by the TTU.

Market Arrangement. In the past almost all agreements restricted the licensees from selling their products abroad. Less restrictive provisions require the licensees to obtain the licensors' approval before exporting. Since 1976, the TTU has tried to eliminate all these restrictions from the agreements signed by Malaysian licensees. The TTU feels that a licensee should be able to sell his products in his country and all other countries except those in which the licensor is manufacturing directly or in which he has given exclusive rights to others or in which he is legally not empowered to allow sales based on his technology. Licensors are generally told that they can restrict the licensee's right to produce in Malaysia but not the right to export. If the licensors argue that a restriction is necessary, then the MTI insists that consent for sales outside the restricted territories should not be unreasonably withheld. At the very least, the MTI requires licensors to allow their Malaysian licensees to export to the ASEAN countries because, as the MTI has pointed out, Malaysia is a strong supporter of ASEAN and greater intra-ASEAN trade. Thus, a restriction on export to the ASEAN countries is against the government's policy.

In view of the MTI's policy on market arrangement, it is not surprising that few agreements now incorporate restrictions on market arrangement. In fact, only 24 of the sample agreements studied totally prohibit exports by recipients, while 231 agreements do not contain any restrictions on market arrangement. In the remaining 136 agreements, the provisions on market arrangement were only partly restrictive.

Pricing and Purchasing. Some licensors might insist on fixing the price of the licensed product while others might insist that licensees purchase all raw materials and components at prices fixed by the licensors. However, the former restriction was not common and has been prohibited by the TTU. Restrictions are more commonly imposed on purchases. Tie-in purchases enable the licensor to maximize his gains by selling over-priced components and intermediates.¹⁹ In addition, the obligation to purchase key inputs enables the licensor to monitor the activities of the licensee; in particular, the licensee's demand for the key inputs provides an independent check on the production figures quoted by the licensee when determining his royalty payments.²⁰

As far as the procurement of components and intermediate products is concerned, the MTI's policy is that:

1. the licensee should determine alternative sources of supply as far as possible;
2. a clause binding the licensee to purchase all imported components and supplies through the licensor should be avoided, unless no suitable alternative source is available;
3. where a clause is incorporated providing that components and imported

supplies will be obtained through the licensor, the licensee should seek to include the following stipulations:

- a) prices to be based on international competitive prices, with the manner of determining such prices described;
- b) the most-favoured-licensee clause will apply to pricing;
- c) where the licensee's supplies are "bought-out" components and intermediate products, the price to be charged to the licensee will be the same as those paid by the licensor plus reasonable handling charges.

Confidentiality. Technical agreements generally contain a host of provisions concerning the transmission of technology. The most common of these provisions is confidentiality. By this, the licensee is required to maintain the confidentiality of the transferred technology both during and after the term of the agreement. In the case of capital-embodied technology, such as machinery, the licensor may even request that the licensee not allow the machinery and method of production to be seen by the public. The licensors have various reasons for insisting on this restrictive confidentiality provision. According to one licensor, such a provision does not have any adverse effect on the licensee but merely prohibits the licensee from disclosing technical secrets to a third party, who in any case has no right to benefit from the agreement. Since the licensor has spent a vast amount of money to develop the secret process it should not be given to a third party free. Another argument is the need to respect technical secrets and the fear that such secrets would fall into the hands of the licensor's competitors. The TTU is unmoved by these arguments and generally insists that confidentiality should be maintained only during the term of the agreement or at the most, for a specified period after the termination of the agreement.

The Legal Provisions. Nowhere is the arrogance of the licensor more clearly manifested in the license agreement than in the legal provisions. In the past it was a common practice for the licensor to insist that the governing law in the agreement be the law of his own country and that arbitration should also take place in his own country. While these requests might seem reasonable to a neutral observer they work to the disadvantage of the licensee. Consider, for example, a legal dispute arising from an agreement which states that the agreement should be interpreted according "to the laws of the Commonwealth of Pennsylvania". That provision alone is enough to deter the licensee from seeking legal redress since any such action would have to be initiated in the United States where legal proceedings are very expensive. Similarly, the cost of attending arbitration proceedings in New York or Geneva would also deter the licensee from arguing with the licensor. Thus, although in theory it does not make any difference which legal system or arbitration centre is used, in practice it makes a lot of difference to the financially hard-pressed licensee. For this reason, the TTU insists that the governing law in all agreements should be Malaysian law and that arbitration should be in Malaysia. The TTU would like arbitration proceedings to be conducted in Malaysia in

accordance with Malaysian laws under the Malaysian Arbitration Act 1952 (Amendment 1972) or the UNCITRAL (United Nations Commission on International Trade Law) Arbitration Rules of the Asia-Africa Legal Consultative Committee (AALCC) Regional Centre for Commercial Arbitration, Kuala Lumpur. Malaysia helped to establish the AALCC Regional Centre for Commercial Arbitration²¹ and would like to help develop it into an international agency. For this reason, the MTI would like to support the Centre by referring any arbitration matters to it. In addition, if arbitration were held in Malaysia, the licensees would be spared the expenses of travelling abroad.

Other Restrictive Provisions. Payments of royalty are subject to an income tax of 15 per cent. In the past, some licensors made their licensees pay the tax, but this practice has been stopped by the TTU. Another restrictive provision required the licensee to maintain a minimum production capacity, while another stated that if the licensee discontinued the manufacture of the licensed product before the termination of the agreement he would be liable to pay the licensor a royalty fee based on the production of the licensee's plant at full capacity during the operational period of the agreement. Both provisions are now prohibited by the TTU.

Other Gains

The above discussion has focused on the benefits accruing from a reduction in technology cost. Needless to say, there are other advantages to be gained from regulating the transfer of technology. In the long run, the regulation of technology transfer helps to eliminate or at least reduce the technological dependence of the licensee by ensuring a permanent transfer of technology to the licensee. This and other gains may be seen when we evaluate the contributions of the TTU to the process of technology transfer in Malaysia. But before doing so it is well to remember that the Malaysian screening mechanism has three main functions:

1. to ensure that technology agreements will not be prejudicial to the national interest;
2. to ensure that technology agreements will not impose unfair and unjustifiable restrictions or handicaps on Malaysian licensees; and
3. to ensure that the payment of fees will be commensurate with the level of technology to be transferred.

Thus, despite its impressive name, the TTU is more concerned with screening technology agreements than with the actual process of technology transfer. Even then, the screening activities are confined to the economic and legal aspects, with the objective of minimizing the licensor's abuses. The scope of the mechanism has not been enlarged to evaluate the suitability of technology transferred to Malaysia. The latter function is not easy to carry out because it requires an understanding of the long-term development of the national technological capability and the nature of technology transfer.

Although one of the main aims of the screening mechanism is to ensure

effective technology transfer, the TTU does not have the expertise and manpower to monitor the extent of the technology transferred, and generally approves all agreements that are submitted for renewal. Clearly, the TTU can do a lot more but until it has the necessary manpower its role will be limited. This is rather unfortunate because the TTU has an important role to play in influencing the development of technological capability by virtue of its prerogative as the approving authority of all forms of technical collaboration. But even within its limited functions, there is no doubt that the TTU has played a useful role in the process of technology transfer in Malaysia.

Firstly, the TTU has helped to reduce the direct cost of technology for Malaysian licensees. Before the Unit was established, it was not unusual for licensors to try and tie their licensees down with agreements of long or indefinite duration and at excessive rates of royalty payment. Since the establishment of the TTU, it is unusual to find agreements with a duration in excess of five years or a rate of payment in excess of 5 per cent of the licensee's net sales. In many cases, the TTU has succeeded in reducing the royalty payment for many licensees.

Secondly, the TTU has also helped to reduce the indirect cost of technology for local licensees by laying down firm guidelines. These guidelines have reduced to a minimum the number of restrictive provisions once so common in Malaysian agreements. Thus, many licensees are no longer forced to purchase their inputs or equipment from more expensive sources or restrict their sales to Malaysia. The savings resulting from the elimination or even amendment of the restrictive provisions may equal or even exceed the savings from the reduction in the direct cost of technology. In any case, the combined reduction in the direct and indirect costs of technology may be quite significant for many licensees.

Thirdly, the TTU helps to augment the bargaining power of the smaller licensees and in some cases even play the role of a countervailing force. The TTU helps licensees to negotiate with licensors and in this way prevents the latter from taking advantage of the ignorance or inexperience of the small licensees. Licensees can use TTU's firm policy guidelines on technology transfer as an excuse for not accepting some of the licensor's unreasonable demands. Some licensees have even used the TTU to turn down certain requests made by their licensors. For example, one licensee assured his licensor after intensive negotiations that he agreed to renew the agreement. However, subsequently, the licensee asked the TTU not to approve the request for renewal of the agreement.

Fourthly, the TTU protects the national interest by ensuring that the technology agreements are not prejudicial to the interests of the nation as a whole. This is important because private enterprises seldom take national interests into consideration when they enter into technology agreements. They also plan their investment projects and business activities without considering the development of national technological capabilities. For example, many manufacturers, especially subsidiaries of MNCs, prefer to import technology even when local technology is available. In the view of these manufacturers, foreign technology is commercially proven and is a less risky proposition compared to local technology. Similarly,

many investors prefer turnkey plants because this option simplifies things for the managers who are not prepared to run the risks involved in disaggregating technology packages or taking an innovative approach in their management of the technology. Consequently, without the TTU, the nation's interests would not be taken into account in planning the transfer of technology.

Fifthly, the TTU helps to encourage a permanent transfer of technology by asking licensees to justify their requests for renewing their licences, and to list the various measures taken to effect an effective transfer. These measures make both the licensor and the licensee aware that the TTU's ultimate objective in approving an agreement is to ensure a permanent transfer of technology and to take appropriate steps to achieve this objective.

Finally, the TTU helps to make the technology market more competitive for Malaysian licensees and ensure that the agreements that are signed are not biased in favour of the licensors but are reasonable to all the parties concerned. This assistance is very important because most technology transactions take place under imperfect market conditions in which the bargaining advantage is heavily tilted in favour of the licensor, and hence the transfer process is costly to the licensee. The imperfection derives in part from the structure of the technology market in which there may be only one seller or a small number of sellers facing a large number of buyers with whom price is determined individually on the basis of crude bargaining power rather than by competition.²² The fundamental weakness of many technology buyers in developing countries such as Malaysia is that they lack the technical, financial, legal and commercial expertise needed for the acquisition of information about the technology and for the evaluation of the various alternatives which may exist. The Malaysian licensees do not advertise the particular type of technology that they need in the foreign technology market so that they can get competing offers. In most cases, the licensor is chosen casually or at random, sometimes even without regard to his competence in supplying the technology. Thus, the TTU fills a critical gap by providing local licensees with any information they require on the cost and source of technology. The TTU is able to do this because of its connections with UNIDO and other international organizations. More specifically, the TTU can provide information on alternative sources of technology and can also refer to UNIDO for terms of payment and conditions for similar technology transactions. The more information the licensee can obtain on royalty rates and other terms and conditions prevailing in other countries, the more is his bargaining position strengthened. As Constantine Vaitsos has written, "Knowledge about knowledge is knowledge itself", and his observation that the payment for receiving know-how is an increasing function of the recipient's ignorance is worth noting.²³

Conclusion

The evidence from Malaysia seems to indicate that there are significant advantages

in regulating the transfer of technology. Briefly, the establishment of the Technology Transfer Unit has helped to facilitate the transfer of technology to Malaysia at minimum cost and maximum effectiveness. But what about the negative aspects of regulating technology transfer?

Firstly, critics often claim that any kind of regulation will discourage foreign investment and technology transfer. While this may be true if the regulations are very restrictive and rigidly enforced, the adverse effect is minimal if the regulations are reasonable and there are provisions for flexibility. In any case, the evidence from Malaysia does not suggest that the establishment of the TTU has led to a decline in foreign investments or technology transfer.

Secondly, other critics may argue that the TTU's attempts to reduce the direct cost of technology may be more apparent than real in the sense that licensors can always resort to other means such as transfer pricing when they fail to extract sufficient revenue from royalty payments. While this may be true in the case of licensees wholly or even partly owned by the licensors, it may be more difficult in the case of independently owned licensees. In any case, it is still desirable to ensure that the easiest and most convenient means by which licensors can derive the maximum gains from their licensees is no longer available to them.

Thirdly, there is the question of allocating resources for regulating the transfer of technology. While these resources may involve cost which is prohibitive for some financially weak countries, it would still be much less than the benefits derived. In Malaysia, the cost of establishing and maintaining the TTU is minimal. As pointed out earlier, the TTU was to be given a complement of five officers but has operated with only two or three officers most of the time. The savings from reducing the direct cost of technology alone is more than sufficient to pay for the salaries of the TTU officers.

Finally, there is the fear that regulating the transfer of technology will add to the amount of red tape and may even provide an additional source of corruption. While there may be grounds for this kind of fear, the Malaysian experience indicates that although there may be some delay in approving technical agreements, the delay is usually less than two weeks. As for corruption, suitable administrative procedures can be incorporated to prevent it.

Having weighed the pros and the cons of regulating the transfer of technology, the evidence from Malaysia seems to imply that the benefits appear to outweigh the costs. In spite of this, the author is reluctant to conclude that what is good for Malaysia is necessarily desirable for the other Southeast Asian countries. As we all know, despite their geographical proximity and certain socio-economic similarities, the Southeast Asian countries are quite a disparate group in other ways. One of these is their outlook on foreign investments. For example, Singapore has a relatively open and liberal policy towards foreign investments and would therefore keep any restrictions on foreign investments to a minimum. Moreover, Singapore is now trying to lure high technology industries to the republic. Hence, it will be difficult for the island republic to introduce any regulations on technology transfer.

However, with the exception of Singapore, all the other Southeast Asian countries are quite similar in their policies towards foreign investments. These countries can learn and benefit from the Malaysian experience. In fact, the Philippines is already ahead of Malaysia in regulating the transfer of technology.²⁴ Thailand and Indonesia still adopt a relatively open policy on technology transfer. If these two countries can be persuaded to move in the direction of Malaysia and the Philippines, in the course of time a Southeast Asian Technology Agreement Centre can be set up to link the various technology transfer units in Southeast Asia in a regional network to exchange information on technical agreements. Such a centre will ensure an effective transfer of technology at the minimum cost to licensees in the region.

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13. Presently, the foreign share of the corporate sector in the Malaysian economy is about 47.5 per cent. See Malaysia, *Fourth Malaysia Plan 1981-85* (Kuala Lumpur: Government Printer, 1981), p. 62.
14. Ibid.
15. Zainuddin Haji Din, Director of the Ministry of Trade and Industry, "Licensing Policy in Malaysia" (Paper presented at UNIDO Regional Workshop on Technology Acquisition, Equatorial Hotel, Kuala Lumpur, 17 October 1975).

16. Investment proposals are screened by a different agency — the Malaysian Industrial Development Authority (MIDA).
17. Previously, the TTU was called the Technical Agreement Unit (TAU).
18. This and the following paragraphs in this section are based largely on the material prepared by Wong Hiong Chin, the former Head of the Technology Transfer Unit in her paper, "Technology Transfer — Malaysia's Experience", presented at the High-Level Policy Meeting of ASEAN on the Regulation of Technology Transfer, Vienna, Austria, 28–30 September 1981.
19. In some cases it is possible that the gains from tie-in purchases may even exceed those from royalty payments. One study shows that in the pharmaceutical industry, reported profits "comprised 3.4 per cent from effective returns, 14 per cent from royalties, and 82.6 per cent from 'overpricing' (that is, the price differential between sales of intermediates of licensees, and the prevailing international rates)". See C. Vaitos, "Bargaining and the Distribution of Returns in the Purchase of Technology by Developing Countries", *Bulletin* (Britain: Institute of Development Studies, University of Sussex, October 1970).
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Authoritarian Controls and News Media in the Philippines

JOEL DRESANG

The Philippines: A Portrait of Pressure

On the evening of 20 September 1972, Chibu Lagman filed what would be his last news report for Channel 5 television in Manila. Lagman, now living in the United States, recalled in an interview that that final story was an account of an aborted ambush of Philippine Defence Minister Juan Ponce Enrile. Lagman said his report portrayed the ambush attempt as a staged event, intended by the government to make people think there were subversive plots to assassinate government leaders and overthrow the regime of President Marcos.

The next day, 21 September 1972, President Marcos declared martial law and closed down all the print and broadcast facilities in the Philippines. In so doing, Mr Marcos charged that "lawless elements, their cadres, fellow-travellers, friends, sympathizers and supporters" were using the mass media to disseminate "deliberately slanted and overly exaggerated news stories and news commentaries as well as false, vile, foul and scurrilous statements, utterances, writings and pictures". Chibu Lagman says that his report on the ambush was among those used by the authorities as examples of anti-government reporting.

The declaration of martial law was a watershed for press freedom in the Philippines. Another one came in 1983 after the assassination of former Senator Benigno S. Aquino, Jr. The dynamics of government-media relations in the Philippines ranges from a time less than fifteen years ago when the Filipino press was considered one of the freest in the world, to recently when it was denounced as one of the most repressed, and to the present time when there is a resurgence of popular anti-government publications. Such a colourful scenario provides an interesting illustration of the effect of authoritarian controls on news media.

Philippine press freedom was modelled after the constitutional provisions of the American colonialists. The Philippine Constitution still contains a Bill of Rights in which it is stated that "no law shall be passed abridging freedom of speech, or of the press, or the right of the people peaceably to assemble and petition the Government for redress of grievances."

The Philippines had a long reputation for having the freest press in Asia. A 1966 study by Ralph L. Lowenstein for the Freedom of Information Center at the University of Missouri categorized the Philippine media system among the most free in the world. In the 1960s, the Philippine Government was enacting or seriously considering legislation designed to protect journalists' sources of

information, to open government files to the public and to provide specific definitions of libel. Such organizations as the Philippine Press Institute existed so that journalists could occasionally police themselves from abusing the "power of the press."

During this period, journalism was seen as a factor in the growth and development of the Philippines because of its contribution to the exchange of ideas. The news media were characterized by outspoken comments and convictions, generally authenticated news, and authoritative and reasonable editorials. Newspapers especially wielded important influence in politics, often exposing corrupt government practices.

But along with journalistic excellence came excess. Many publications inclined towards exaggeration and sensationalism, especially in reports of crimes and official improprieties. These tendencies intensified in the early 1970s when worsening economic conditions made the adversarial press even more oppositionist. Major Manila dailies would pool anti-establishment editorials and publish them on their front pages. Weeklies were even more emphatic.

Criticism of the government finally reached a point at which the Marcos regime in 1971 declared its resentment of the media's "non-objectivity". The President forbade media representatives from access to official sources of information. The media responded with further criticisms and exaggerations until their credibility, on the whole, degenerated. But it was still generally believed that an excessive press was better than a controlled one.

"The press had that reputation which I think it deserved. It was very free-wheeling, and practically anybody could set up shop and start his own newspaper", recalls Hernando Gonzalez, who reported in the early 1970s for the Philippines' largest daily, the *Manila Times*. But Gonzalez notes that martial law changed everything in the Philippine press.

The *Manila Times*, published by Joaquin P. Roces, was a leading opposition newspaper before martial law shut it down. At that time, Roces was president of the International Press Institute. Since then, the Institute has barred the Philippines from its membership, declaring it as having one of the most repressive press systems in the world. The government arrested Roces along with dozens of other journalists when martial law was decreed. Like many of his colleagues, he has yet to be tried for his alleged crimes against the state. He is still under house arrest.

Gonzalez, now a professor of agricultural journalism at the University of Wisconsin, recounted in an interview how, after the declaration of martial law, he had waited in the hope that authorities would allow the *Manila Times* to resume publication and that press freedom would be restored. Other newspapers reopened under the ownership of friends of the government. The *Manila Times* remained closed, and Gonzalez went to work for a bank.

"You come to the realization of course, that you can no longer write the truth", Gonzalez says. "It's a major decision that you have to make, because if you cannot write the truth it becomes a matter of conscience or a matter of economy. Some people had to feed their families, and that's the only trade they

know, so they had to go back to newspapering. I didn't have to do that."

For those journalists who did return to the Philippine media after the declaration of martial law, press freedom might never be the same. By immobilizing the country's mass media, the martial law government created a communications vacuum which it could then fill for itself. The first publication allowed to resume operations was the pro-Marcos family newspaper, the *Philippine Daily Express*. The *Manila Bulletin* reopened as the *Bulletin Today*, still published by former Marcos aide, General Hans Menzi. Another major daily newspaper appeared soon after martial law. The *Times Journal* and its sister publications, *People's Journal* and *People's Tonight*, are owned and operated by President Marcos' brother-in-law and the Philippine Ambassador to the United States, Benjamin Romualdez.

Major broadcast facilities also reopened under the control of friends and relatives of the regime. The country's largest radio and television network had belonged to the Lopez family, a chief rival of President Marcos. With martial law, the military confiscated the network's facilities and converted them for use by the government.

In effect, by declaring martial law and reorganizing the media system, the Marcos administration gained control of the content of Philippine media. The arrests and imprisonment of prominent journalists at the beginning of martial law had a chilling effect on the people who worked in the Philippine media after 21 September 1972. At first, the government strictly regulated what was broadcast or printed in the media, even requiring that news reports sensitive to the regime be submitted to the authorities for approval prior to publication.

In late 1974, the government dismantled its council for controlling media affairs, but at the same time, it ordered journalists,

. . . to print and broadcast accurate, objective, straight news reports of positive national value consistent with the efforts of the Philippine government to meet the dangers and threats of martial law and the efforts to achieve a New Society as set forth by the President.

In addition, the martial law regime continued to censor all photographs and dispatches going into the Philippines and banned material that could incite people against the government. Journalists were also prohibited from glorifying or sensationalizing crime as well as using items that could "dominate or jeopardize" the military or law authorities.

As a result of the changed press freedom under martial law, the Philippine media became more passive, positive and, as some critics note, sycophantic. The front page headlines of graft and corruption commonly seen before martial law were replaced by elaborate accounts of the activities of the first family and the accomplishments of the "official family" of ministers and notables.

In January 1981, coinciding with the inauguration of Ronald Reagan as President of the United States and with the visit of Pope John Paul II to the

Philippines, President Marcos officially lifted martial law. But as far as press freedom was concerned, authoritarian controls had been lifted only in name. The Philippine Minister of Public Information, Gregorio Cendana, in a government newsletter of February 1981, claimed that the end of martial law marked the beginning of broader and more intense public inquiry into the affairs of the government. But Cendana also warned that it did not signal a "return of the kind of irresponsible journalism of our discredited past."

A week before he lifted martial law, President Marcos had decreed the Public Order Act, giving himself the power to silence the press and to hold anyone in preventive detention whenever it was declared that a "grave emergency" was imminent. In effect, although martial law was suspended, President Marcos retained many of the same authoritarian controls he seized in 1972. That worries journalists.

Hernando Gonzalez says President Marcos continued "cracking the whip" at journalists even after he lifted martial law. Besides having the authority to detain anyone incriminated by evidence showing that they so much as intended to commit a subversive act, the government also has power to determine what is responsible reporting by the media.

"I feel that many newspapermen now are still working under a trauma", a senior editor for the *Bulletin Today*, Antonio Nieva, said at a July 1981 meeting of the National Press Club of the Philippines. "The lack of press freedom has made many of us, who have worked all these years under martial law, tend to censor ourselves automatically."

Perhaps noticing the tendency towards self-censorship, the government, through Ministers Cendana and Enrile and even through President Marcos, occasionally chide the post-martial law media for being too servile. A March 1983 report of the International Press Institute notes that the government did liberalize press controls after it lifted martial law. If Filipino journalists were not vociferous in their acknowledgement of a relatively freer press, perhaps they were, as Nieva suggested, traumatized by the intimidation and the lingering threats of martial law.

In any event, Philippine press freedom in 1981 was still considerably more repressed than it had been ten years earlier. And if the government did institute a period of liberalization after it suspended martial law, it did not last long.

A crackdown on government opposition recurred in August 1982, just before President Marcos' state visit to the United States. Authorities campaigned against radical elements in the Catholic church and rounded up national labour leaders, charging them with subversion. In the months that followed, the Marcos regime threatened several publications with closure, and in December, authorities stopped the presses of the *WE Forum*, one of the leading oppositionist newspapers. The *WE Forum* had just published a series of articles questioning whether President Marcos, said to be the Philippines' most decorated veteran of World War II, had really earned all his medals.

Authorities arrested the author of those articles along with the publisher, Jose Burgos, Jr., and charged them both with libel. At the same time, Burgos and

fifteen of his staff members and contributors were accused of having links with communist-backed organizations. They still face a maximum penalty of death. Their cases are pending.

"What I'm sure of is that the government has been very successful in silencing *WE Forum* and instilling fear in people," Burgos told the *Washington Post*. "The main concern is to stifle dissent, to keep people from complaining."

In December 1982, about the same time that the government shut down the *WE Forum* the *Bulletin Today* dismissed Antonio Nieva in a case that is also still pending. In February 1983, Nieva led the first Philippine press strike since martial law. A month later, he became the founding leader of the Brotherhood of Media Unions, an association of five newspaper unions. Then in April 1983, under a presidential order, Philippine authorities arrested Nieva and charged him with conspiring to stage a rebellion. Defence Minister Enrile said that Nieva had "suspected links with some elements who seek to destabilize the government."

Journalists demonstrated in Manila, demanding Nieva's release. He was the twenty-fourth journalist arrested by the government in five months. Authorities later released him from house arrest, while charges against him are pending.

"Not one of those journalists is ever convicted," contents Chibu Lagman. "That shows there's probably no basis for the charges against them. The whole thing just has a chilling effect on the rest of the press. Journalists are still scared. Once you're arrested, it's very hard to get a job again."

The chilling effect of arrested journalists even after the lifting of martial law made members of the media wary of what they wrote. In *The Quiet Revolt of the Philippine Press*, journalist Marcelo B. Soriano described that wariness:

One's anguish, one's indignation is throttled. The tragedy is that even those who have the means are helpless to even make a squeak. While others do try, they are forced to improvise with symbols. There is an abundance of ideas, a paucity of veracity. Vagueness has taken over. Words have taken up many meanings. Pity those who can't read between a hundred lines.

If such journalism is a tragedy to write, it is also a trial to read. "You're always having to read between the lines," remarks Philippines-watcher Daniel Doeppers of the University of Wisconsin. "There are whole subject areas that are never treated in the press because they're seen as inappropriate." Doeppers said in an interview that the Philippine Government's influence on the media makes it difficult to study anything beyond what the government wants to say.

By August 1983, despite jailed journalists and the silenced *WE Forum*, press freedom in the Philippines had liberalized enough that the media were slowly returning to their pre-martial law accounts of sensational crimes and society news. Reports containing criticism of government policies were in some newspapers. But on television and the front pages of most major publications, extensive coverage of President Marcos and his family and his government and their activities continued.

On 21 August, oppositionist Benigno Aquino, Jr. returned to the

Philippines after three years of self-exile in the United States. His assassination at the Manila International Airport that day triggered a number of situations that still have the Philippines reeling. Among the changes noticeable after Aquino's murder were those of the press.

Some people did not believe the government's explanation of the assassination — that a communist-related "hired gun" had sneaked through government security and killed Aquino. Some people even suspected that the Marcos regime was behind the murder. But the established media reported little beyond what the government would release about the assassination.

"The Philippine media are scared of telling the truth or have been bribed," influential industrialist and Marcos critic, Enrique Zobel, remarked to the *Washington Post* at the time. "We have no respect for the Philippine media."

Another Philippine business leader, Vincente Jayme, rallied the business community to pressure the established media by boycotting them and by withholding advertising from them. He even suggested that some publications could be bought and run under new ownership.

After that, according to a report by the International Press Institute in November 1983, the mainstream media's coverage of the assassination and its aftermath was notably more balanced. Some newspaper columnists even questioned government versions of the murder and other events.

More impressively, oppositionist publications rose in number and in popularity. Jose Burgos began publishing the English-language *Malaya* within a month after the government banned his *WE Forum*. In August 1983, *Malaya* struggled as a semi-weekly newspaper. Eight months later, in April 1984, *Malaya* appeared five times a week and claimed to be Manila's second largest newspaper in terms of circulation. Burgos told *Asiaweek* at that time that he was considering publishing *Malaya* daily.

Within a few months of the Aquino assassination, ten new non-establishment newspapers joined *Malaya* in the Philippine media market. *Veritas Weekly* was started with the money of several top business executives who had withdrawn their advertising from major daily newspapers. In April 1984, its circulation was larger than that of the *Times Journal*.

The rise of oppositionists in the Philippine media has not entirely escaped the attention of the Marcos regime. The government silenced the weekly tabloid, *Philippine Times*, in October 1983 after it published a series of articles claiming that soldiers had killed Aquino. Authorities imprisoned the publisher, Rommel Corro, on charges of subversion. President Marcos ordered his "temporary release" from jail in late April 1984.

But, all things considered, the media of the Philippines have been demonstrating a freedom to criticize which they had not exercised since before martial law. Professor Doeppers explains that the Marcos regime is constrained from controlling the press by political and economic turmoil in the Philippines.

Doeppers has a special interest in collecting historical newspapers from the Philippines and claims to have found a trend in which the number of media outlets

in Manila proliferates at crucial times in the country's history. For instance, Doeppers notes that the number of Manila newspapers mushroomed in the late nineteenth century when Filipinos revolted against Spain, again during the early days of American colonization, and when the Japanese occupation ended in 1945. He says that for reasons of politics and business, newspapers tend to expand their markets when people have extraordinary needs for news.

Of course, authoritarian controls prevented media booms at the inception of the Japanese occupation and martial law. And Doeppers says of the present oppositionist publishers, "These people would be quickly shut down were the government not in this economic bind and therefore political bind."

Not only has local business expressed dismay against the Marcos regime, but the country's problems with foreign debt are compounded by transnational wariness of Philippine stability since the Aquino murder.

"Suddenly," says Doeppers, "not only is the regime beholden on foreigners for foreign loans and to some degree on foreign opinion, but also journalists in the Philippines realize the situation the regime is in."

"So there is very substantial commercial opportunity, and there's the first opportunity since 1972 to say something critical about the regime," Doeppers adds, "They still cannot print stories that are personally defaming of the first family or the principal generals or figures in the government."

Professor Hernando Gonzalez still finds the Philippine Government in control of the media. "Marcos is in fact a very good politician to realize that the people have to let off steam," Gonzalez says. "So he is allowing them to do that but not really on substantial matters. The problem in fact is that by loosening up a bit, Mr Marcos has succeeded in dividing the opposition."

Gonzalez contends that by allowing oppositionist publications to compete against one another, the Marcos government is showing its opponents how divided they are. For instance, while some anti-establishment media campaigned for oppositionist candidates in the May National Assembly elections, other media urged oppositionists to boycott the election.

Some theorists might explain the recent rise of dissident media in the Philippines as a natural reaction against years of controlled press freedom. They might see the government's wall against the free flow of information buckling under the pent-up pressure of the press and people.

Or perhaps the government has, as Gonzalez suggests, allowed the people, through the media, to release some critically swelling tension. In that way, the regime may lose some control in the short term, but it will preserve itself and its powers in the long term. In that analysis, the difference between today's Philippine press and that of the martial law years is still more a matter of degree than of kind.

Authoritarian Controls of Press Freedom: A Theoretical Look

As the circumstances in which an authoritarian regime changes, so also are that government's controls of press freedom adjusted. This portrayal of authoritarian

controls and news media in the Philippines is necessarily a snapshot of a dynamic process. It is a still photograph of a moment in the course of a moving object. But in that it offers descriptions applicable to other authoritarian regimes and other news media systems, it is a useful exercise.

The experience of the Filipino press is not isolated. A survey of government pressures on the press, conducted by the International Press Institute, found that censorship is contagious. Malaysia has recently tightened its control of the media with the Printing Presses and Publications Bill of 1984. An Indonesian correspondent Susumu Awanohara wrote in the 1 March 1984 edition of the *Far Eastern Economic Review* that "journalists here are engaged in a guerilla war with the security-minded officialdom."

The snapshot rendered here indicates that authoritarian controls on press freedom can affect the content of a country's news media. Although in some ways the martial law press of the Philippines became more responsible, in many respects it was also less reliable. For scholars, foreign correspondents and anyone concerned with international affairs, the extent of authoritarian control on press freedom within a country is a very practical consideration.

This paper examines the relationship between authoritarian controls and one of those institutions — press freedom. But it is the author's contention that controls over the news media should be considered not so much as threats to a political philosophy as they are regarded, but more practically, as barriers to the knowledge we need of and from other countries.

More practical, less ideological considerations of the consequences of authoritarian controls on news media seem to be overlooked. That the extent of press freedom affects the content of the news media, the accuracy, the thoroughness and the reliability of a country's news system is the concern of foreign correspondents, scholars and policy-makers. Each of these groups relies on domestic news sources for information and ideas relevant to their work.

The relationship between the reports of foreign correspondents and foreign policy-makers in the United States is documented in Bernard C. Cohen's classic study, *The Press and Foreign Policy*. Cohen showed that members of the U.S. Congress and even State Department officials depend on the accounts of foreign correspondents for information on events and issues overseas. According to Cohen, such data are used by foreign policy-makers for ideas, evaluations, analyses, and interpretations. In addition, Cohen noted that the press functions as an agenda-setter — that is, the reports of foreign correspondents do not necessarily tell foreign policy-makers what to think, but they do rank news items so as to suggest what diplomats and legislators should think about.

In the same way that foreign policy-makers rely on the reports of overseas correspondents, those correspondents depend on the domestic news media of the countries they cover. A study of the process of making news decisions by American journalists based in Southeast and East Asia indicates how much foreign reporters rely on local media. A 1975 survey conducted by Guy T. Meiss found that "... nine of eleven story suggestions from *Newsweek* correspondents in bureaus around

the world are traceable to their monitoring of their mass communication environments."

Meiss applied his 1975 findings in his 1977 Ph.D. dissertation at the University of Wisconsin. He determined that Asia's local news media influence foreign correspondents in four ways. Firstly, they provide correspondents with some degree of awareness of events and with the means of evaluating the importance of those events. Secondly, the local media offer early warnings of events defined as newsworthy. Thirdly, they generate specific story ideas for the correspondents. Lastly, they act as a barometer for measuring the social importance of events to the local communities.

Also related to foreign correspondents' reliance on local news media is their dependence on local journalists. Meiss points out that many Western news organizations employ stringers who are usually working at the same time for local media. Domestic reporters, according to Meiss, are also engaged by foreign correspondents to discuss story ideas and to analyse news events and issues.

A further indication of the use of local media by foreign correspondents is illustrated by a survey of reports written by those correspondents. By monitoring foreign news articles for references to domestic news media it was found that over a three-week period, 38.6 per cent of the articles datelined from China, the Philippines and South Korea referred to local media (Table 1). This means that of the four U.S. publications surveyed, nearly two out of every five news items dispatched by correspondents in those countries relied on domestic media to the extent that they actually mentioned them in their reports. Such a survey does not even account for the possibility that the correspondents used local media for the ideas for their stories.

Cohen and others have reasonably established that opinion leaders, decision-makers and the general public rely heavily on the reports of overseas correspondents for foreign news. Foreign correspondents are thus significant actors in the formation of opinions and policies towards other countries. The extent to which correspondents depend upon and utilize the local news media of the countries they cover adds to the significance of the quality of those media as news sources. These practical considerations of domestic news content should be kept in mind as the implications of authoritarian controls and press freedom are contemplated.

Stemming the Stream: Theories of Controls

If communications in press systems have the propensity for flowing freely like a river, then more often than not the government can find reason to erect dikes in order to divert or dam the flow. The state could control the stream in order to harness its power for a particular purpose, or it could constrain the flow to protect concerns downstream which might be susceptible to damage.

If foreign correspondents provide much of the world's information on extranational events and issues, and if those correspondents are dependent on the

TABLE 1
NUMBER OF REFERENCES TO DOMESTIC MEDIA IN STORIES DATED FROM
CHINA, SOUTH KOREA AND THE PHILIPPINES IN THE *ASIAN WALL STREET*
JOURNAL WEEKLY, THE *CHRISTIAN SCIENCE MONITOR*, THE *NEW YORK TIMES*
AND *TIME* FROM 19 MARCH 1984 TO 7 APRIL 1984

<i>Country</i>	<i>References</i>	<i>Articles</i>	<i>Percentage</i>
China	19	34	55.9
South Korea	3	21	14.3
Philippines	12	33	36.4
Total	34	88	38.6

<i>Publication</i>	<i>References</i>	<i>Articles</i>	<i>Percentage</i>
A.W.S.J.W.	14	37	37.8
C.S.M.	9	20	45.0
N.Y.T.	11	30	36.7
Time	0	1	0.0
Total	34	88	38.6

local media of the countries they cover, it is important to consider the milieu in which those media function. The extent to which news is constrained or controlled seems significant to the reliability of the information it communicates.

The most significant controls on press freedom to consider are those which are authoritarian. Both historically and geographically, authoritarian relations with the press are the most pervasive. In his influential work, *Four Theories of the Press*, Fred S. Siebert writes that the authoritarian model,

... is the theory which was almost automatically adopted by most countries when society and technology became sufficiently developed to produce what today we call the 'mass media' of communication. It furnishes the basis for the press systems in many modern societies; even where it has been abandoned, it has continued to influence the practices of a number of governments which theoretically adhere to liberal principles.

Since Siebert's 1956 observations, an impressive proliferation of authoritarianism has occurred. In his article "Press Freedom as a Barometer of Political Democracy", Ralph L. Lowenstein estimated that in one decade, from 1966 to 1976, the extent of authoritarian controls over political and press systems

TABLE 2
COMPARATIVE RANKINGS OF MASS MEDIA SYSTEMS IN SOUTHEAST ASIA

Country	Dailies	Circulation*	Radio Stations	Radios*	TV Stations	TVs*
Thailand	116	34	222	140	8	17
Singapore	9	241	2	191	NA	165
Malaysia**	43	118	1	100	1	55
Philippines**	19	20	455	43	26	22
Indonesia	84	16	517	47	1	5
Vietnam	6	14	2	105	7	40
Burma	7	12	1	22	0	0

* per thousand

** tied in ranking

Note: The *World Press Encyclopedia* categorizes Brunei, Cambodia, and Laos as "nations with minimal media". They are not included in this ranking.

SOURCE: *World Press Encyclopedia* 1982.

increased from one-half of the world's population to three-fourths.

In general, theories of authoritarian controls of the news media offer no particular models with universal application. They tend to be quite broad, perhaps to account for the varied forms authoritarianism can take.

Four Theories of the Press has been the most often cited source of ideas about the relationship between a country's government and its news media system. In this book, Siebert, Theodore Peterson and Wilbur Schramm base their models for "authoritarian", "libertarian", "communist" and "social responsibility" theories of the press on the political philosophies of a country and its rulers.

Ideology plays a less significant role in the design of media systems for modern states. Practical considerations have replaced dogma. A 1979 Master's thesis at the University of Washington re-evaluates the *Four Theories* model and finds that it inadequately describes or predicts the media systems of contemporary governments. Studying the libertarian press system of Venezuela and the authoritarian press system of Argentina, Linda M. Baker concluded that the impact of political ideology in the shaping of media systems is tempered or even superseded by the influences of technology, a state's economy and its status as a less-developed country.

But even though there is a lack of a theoretical framework for authoritarian controls on news media, the literature offers useful descriptions of characteristics common to such government-media relationships.

Authoritarian controls over media systems have two major functions: to stem interference with government plans, and to propagate the policies of the regime. These functions are observed through the usual procedure taken by authoritarian states against the freedom of media systems. First, the authorities recognize the power of the press as they perceive the media to be undermining state policies through reports critical of the government. This usually occurs within an atmosphere of tension, as in times of political or economic stress. During such times, authorities might consider the expression of anti-government opinion as unpatriotic.

Then the government seizes control of the mass media, often in the name of "national security", "national interest", or "national prestige". The next step in the usual procedure of applying authoritarian controls on a country's media system is to employ the media as tools of the state. To do this, either the state runs the media itself, or operations are returned to private owners who are then made more accountable to the government for what they print or broadcast.

The controls and restraints applied by governments on their media systems take various forms. Some pressures on the media are based on laws. Others take the form of economic and political pressures.

Some of the legal-based media constraints include: constitutional provisions; laws on national security; press laws governing publishing conditions; penal laws covering such offences as defamation, incitement to disorder, inaccurate news, disclosure of official secrets and refusal to reveal sources; and laws regarding immoral publications.

But government pressures on the media are by no means limited to the law and its application. Subsidies, bribes, graft, and sinecures can also be used to control the press. The distribution of newsprint, government advertising, and trade union pressures are other economic devices available to authorities who want to control the media. Political tactics can take indirect forms such as restricting the rights to publish, to distribute and to broadcast information, and limiting access to official sources. Or the government can exert direct political pressures by recommending or even ordering the coverage or non-coverage of specified items, by issuing instructions and warnings to the media, and by requiring the publication of government material.

Just as the forms of media pressure vary, so does the extent of controls differ from one authoritarian regime to another. The literature on authoritarian relations with media systems points out that state controls on press freedom differ according to the particular political system of the state. Not only are pressures among authoritarian states distinct, but also, within the same regime, media controls can change over time, depending on the circumstances. A more mature and stable government, for instance, may relax its restraints on the press, while during a time of instability, the controls may be tightened.

The proliferation of authoritarian regimes throughout the world has resulted in a wide array of applications of control on media systems. Theoretical models accounting for this variety of government-media relationships are still lacking, but even so, studies have found some common characteristics of such phenomena. These descriptions offer a useful guide in considering the milieu in which media systems function in authoritarian regimes. The gates of a river's dam may be opened and closed to allow various flows for various reasons. More than in any other political system, press freedom in authoritarian states experiences the most unpredictable changes in control, depending upon circumstances over time.

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An Attitudinal Survey of Foreign Investors in Hong Kong: What are the Implications to the Southeast Asian Countries?*

SUK-CHING HO

Introduction

Hong Kong reached a turning point in its history at the end of September 1984. The results of the secret Sino-British negotiations which had spanned nearly two years were formally announced. The issue which had dominated the city and caught the limelight of the world was the political future of Hong Kong after 1997.

Hong Kong is a "crossroad" of the East and West. It is a favourite locational choice for foreign investors and has become the regional centre for trade, industry, banking, and communications. As a major trading centre and with large stakes of foreign investment in the city, the results and implications of the Sino-British negotiations naturally draw the attention of governments and citizens of many countries as well.

This paper reports on the results of an attitudinal survey of foreign manufacturing investors in Hong Kong. Based on these results, inferences are drawn on the implications to the businessmen, particularly ethnic Chinese businessmen in Southeast Asian countries consequent on the political changeover of Hong Kong after 1997.

Hong Kong: The Political and Investment Environment

Earlier surveys of foreign investors had revealed that the motivation to invest abroad was complex,¹ yet it seems safe to conclude that the most important motive is the political stability of the host country.² As such, it is instructive to review the political environment of Hong Kong first.

Hong Kong is a unique city. It is "a borrowed place living on borrowed time".³ Hong Kong was acquired by Britain from China through three treaties in the nineteenth century. The island of Hong Kong and the Kowloon Peninsula were ceded to Britain in 1842 and 1860 respectively. The New Territories which make up 92 per cent of Hong Kong's overall area were leased to Britain in 1898 for 99 years. If the lease is not renewed, the hinterland New Territories will have to be returned to China on 1 July 1997. Most of Hong Kong's water, energy production, agricultural and industrial outputs are located in the New Territories. Without the New Territories, Hong Kong is unlikely to survive as it will be severed from the lifeblood on which the city lives.

With a hope to settle the issue of "borrowed time", the visit to China by the British Prime Minister Margaret Thatcher in September 1982 sparked off the herculean negotiation rounds. The negotiations concluded with the British decision to revert Hong Kong's sovereignty to China and to discontinue the British rule over the whole city after 1997. In return, Beijing's leaders promised to ensure Hong Kong's continued prosperity and stability by the fifty-year agreement that the social and economic system and way of life of Hong Kong would remain unchanged.

Now that the dust surrounding the political future has been cleared, people turn their attention to other ensuing questions. Among them is whether China's claim to sovereignty over Hong Kong can be accepted without undermining the confidence of local and foreign investors? Can Hong Kong continue to offer the hitherto traditional attractions to enterprising businessmen? What are in store for foreign investors interested in conducting business with Hong Kong and/or China in the light of the forthcoming changeover in administration?

According to Nehrt, the investment environment represents "all of the conditions that affect [business] operations within a country".⁴ Throughout the past three decades, the investment environment of Hong Kong has been in a flux of change. Basically, four phases of the investment environment of Hong Kong can be delineated:

1. At the turn of the 1950s when Hong Kong was still predominantly an entrepôt, foreign investment came to the city in the form of "exodus" of capital from China as a result of the political turmoil there. Of course, it may be argued that such capital was not "foreign" capital. But names apart, Hong Kong's rapid transformation from a traditional entrepôt into an industrializing city owed much to its absorption of such outside capital.
2. In the 1960s, foreign direct investment began to increase in different industries within the manufacturing sector. At that time, labour was abundant and comparatively cheap. So was land. Hong Kong was then a paradise for investors interested in light industrial production requiring a high degree of labour intensity.⁵ The inflow of local as well as foreign investment into the manufacturing industries laid the foundation for the development of Hong Kong into a so-called newly industrializing city.⁶
3. Towards the mid-1970s, circumstances changed. Both land and labour became scarce resources. Competition for foreign capital was fierce among neighbouring states. Hong Kong was no longer an automatic choice for some investors. However, it was still able to hold the ground because of the government's non-interference policy, the city's well-developed infrastructure, and advantageous financial and labour factors.⁷
4. In the 1980s, when China cautiously pursued its open-door policy, it was argued that Hong Kong entered into yet another phase in its investment environment — this time, as a gateway to China. According to this gateway argument, Hong Kong can act as a stepping stone to the vastly untapped Chinese market and serve as a location whereby foreign investors get

acquainted with the trading practices of China. With the approach of 1997, this argument gains greater prominence. This, so the argument goes, is an irreplaceable role that Hong Kong is going to play regardless of who is going to rule the city. In fact, it is argued that in the worst case, foreign investors can simply regard the Hong Kong business as the offshore operations of China.

The question to which this article sets out to answer is: Will Hong Kong be able to proceed into the fourth phase of development in its investment environment and assume its gateway role successfully? If so, what will be the implications to the businessmen in the Southeast Asian countries?

An Attitudinal Survey of Foreign Investors in Hong Kong

At the beginning of 1984, a mail survey was undertaken by this author. The main objective of the research was to investigate how foreign investors evaluated Hong Kong as an investment location. The sample frame of the research consisted of foreign investors in the manufacturing industry. They were from four major investing countries, one from each continent: namely, the United States, Japan, the United Kingdom, and Australia. Altogether, there were 315 establishments in this group at the end of 1982, and a sample of 160 was selected for the research. Forty-three returns were received from a total of 156 deliverable questionnaires, resulting in a 28 per cent response rate. Forty-two returns were useable for subsequent analysis.

Of the respondents, 66.7 per cent were U.S. investors; 23.8 per cent were Japanese, while the remaining 9.6 per cent were equally divided between British and Australian investors. Sixty-nine per cent of the firms were medium or large corporations (with more than 100 employees), and 78.6 per cent of the respondents had made their investment in Hong Kong before 1975. In other words, the responding firms came from Hong Kong's two major groups of investors which were experienced investing companies and many of which were relatively large firms.

The main part of the research questionnaire was an attitudinal survey. The question read: "Please circle the following factors according to their relative attractiveness to foreign investors in selecting Hong Kong as the location for their manufacturing operation". The respondents were asked to rate the attractiveness with respect to twenty factors on a rating scale ranging from 0 (no influence) to 3 (decisive positive influence). Table 1 summarizes the results.

From the table, it can be seen that liberal foreign exchange (freedom to move capital, assets; freedom to repatriate earnings, interests); low tax ceiling; high quality labour, and political stability have all accounted for the attractiveness of Hong Kong as a target investment location. This indicates that many of the factors which had previously made Hong Kong a locational choice still hold true today. Surprisingly, the factor "Good relationship of Hong Kong with Mainland China" did not stand out as important in the eyes of the investors. Neither was the "gateway argument". This is obviously a contradiction between the importance

TABLE I

MEAN SCORES OF TWENTY FACTORS AFFECTING THE ATTRACTIVENESS OF HONG KONG AS AN INVESTMENT LOCATION

	<i>Mean Scores</i>
<i>Factors with most influence (2.01-3.00)</i>	
1. Freedom to move capital, assets	2.333
2. Freedom to repatriate earnings, interests	2.310
3. Low tax ceiling	2.167
4. Availability of efficient labour	2.071
5. Stability of the H.K. government	2.048
<i>Factors with moderate influence (1.01-2.00)</i>	
6. Strategic position to serve export markets	2.000
7. Minimum bureaucratic red tape	1.881
8. Peaceful industrial relationships	1.857
9. Existence of adequate infrastructure	1.762
10. Independence of the judiciary system	1.738
11. Lower wage costs	1.643
12. Strategic position of Hong Kong	1.548
13. Existence of supporting industries	1.476
14. Access to local sources of capital	1.214
15. Lower cost of transportation	1.190
16. Good relationship of H.K. with China	1.190
17. A stepping stone to the China market	1.167
<i>Factors with least influence (0.00-1.00)</i>	
18. Local market potential	0.952
19. A suitable place to familiarize the firm with trading practices of China	0.929
20. Access to specialized skills	0.922

attributed to Hong Kong's new role as perceived by many people and the findings of the present empirical study.

In order to gain a deeper understanding of such a contradiction, further analysis was performed. Since the political climate is strongly related to foreign investors' motivation to make investment, a factor analysis⁸ was performed on the eight politically-related variables out of the twenty variables included in this survey. The result indicates that foreign investors' assessment of Hong Kong's political environment could be dichotomized into two dimensions.

Firstly, they looked at items such as stability of the Hong Kong government,

independence of the judiciary system, minimum bureaucratic red tape, freedom to repatriate earnings and interests, freedom to move capital and assets, as closely related. All of these items are concerned with the philosophy and operations of the Hong Kong government which together create an internal environment for business operations. Secondly, the investors considered such items as good relationship of Hong Kong with China; a stepping stone for future entry to the China market; a suitable place to familiarize the firm with the trading practice of China, as another group of similar items. This group of items are concerned with the present and future relationship of Hong Kong with China.

In other words, in assessing the political environment which has an important impact on the investment climate of Hong Kong, the foreign investors evaluated it from two different angles. One is related to the business operation environment within Hong Kong and the other is related to the connection with China. This latter factor, although it did not stand out significantly as important to foreign investors, does represent a unique dimension in the investment environment of Hong Kong. Thus, the "gateway" role that Hong Kong is postulated to assume does have its foundational rationale.

Recognizing that no two foreign investors are alike, further analysis was performed to investigate if there was a difference between the investor groups in their perception concerning the importance of the gateway role that Hong Kong is likely to take on. To this end, a discriminant analysis⁹ was performed on the U.S. and Japanese investors. The result reveals that the two investor groups differed markedly in the importance attached to nine differentiating variables with respect to the attractiveness of Hong Kong as an investment location. In particular, U.S. investors did not seem to consider using their Hong Kong operations to facilitate entry into China very important but valued more the role of Hong Kong as a manufacturing and distribution centre to serve other export markets. On the other hand, Japanese investors, while recognizing the importance of manufacturing in Hong Kong for export, also viewed the role of Hong Kong as a gateway to China more significantly.

It seems safe to conclude here that Hong Kong has the potential to enter into the *fourth phase* of its investment environment development since its present and future relationship with China has been considered a salient dimension in its political environment. However, the significance of this gateway role to investors is country-specific.

Implications to the Southeast Asian Countries

Given the above conclusions, what are the implications for business to the Southeast Asian countries? Specifically, what are the implications for the ethnic Chinese business communities in these countries?

This author contends that under the temporal perspective of the eventual re-absorption of Hong Kong into China in 1997, the city can serve as a bridge to China for Southeast Asian investors, now and thirteen years hence.

A conservative estimate has put the number of overseas Chinese at 24 million in East and Southeast Asia¹⁰. It is a conservative estimate because several countries in the area, such as Indonesia, the Philippines, Thailand, and Burma do not break down census data along ethnic lines. The countries of the Association of Southeast Asian Nations (ASEAN) account for the largest proportion of this 24 million or so overseas Chinese. Thailand has approximately 6 million overseas Chinese, which represent 12.4 per cent of its total population; Malaysia has 4.3 million, representing 29.1 per cent; Indonesia, 4 million, representing 2.6 per cent; the Philippines, 0.7 million, representing 1.4 per cent; Brunei, 0.05 million, representing 20.5 per cent; and Singapore with 1.91 million, representing 76.7 per cent¹¹. Although the overseas Chinese are the minorities in all these states except the city-state of Singapore, many of them are very successful businessmen. The recent development in Hong Kong should offer them another opportunity to demonstrate their entrepreneurship.

According to banking circles, the number of inquiries concerning investment matters in Hong Kong from Southeast Asian investor groups have increased sharply in the last two years. And many of them have already planned their investment projects. A large proportion of the capital come from Thailand, Malaysia, and Indonesia and most of the investors are overseas-Chinese-related.¹² It seems, however, that these investors are still attracted to Hong Kong mainly by the favourable business environment of the city.

According to the spokesmen of some of these foreign investors, they came to Hong Kong because of its receptivity to business, and its openness and fairness to both local and foreign investors, its minimum intervention, and its simple taxation system¹³. What they have not mentioned explicitly is the possibility of facilitating their involvement one way or another in China trade.

In 1984, when the Sino-British negotiations for a solution to the political future of Hong Kong were still under way, China sent a delegate to Southeast Asia to explain to the Chinese societies in those countries the policy of China concerning the future of Hong Kong and to encourage them to invest in China and Hong Kong. With China's current open-door policy towards international trade, foreign investors can ill-afford not to turn an eye on this vast, untapped market. On the other hand, these ethnic Chinese may be hesitant to consider major investments in China without reservation. It is against this background that Hong Kong can play a vital role.

These overseas Chinese may be reluctant to respond wholeheartedly to the calls of their motherland for two reasons. Firstly, some of the businessmen were refugees and still remember the very unpleasant experience under the Chinese communist rule. They simply lack the confidence to do business with China. Secondly, for the descendents of the long-time emigrants, their feeling of insecurity in dealing with a communist trading partner is immensely influenced by the anti-Red-peril atmosphere that has dominated the area for a long time. On the other hand, some of the Southeast Asian countries do not have diplomatic ties with China, thus inhibiting the intention of their fellow countrymen to invest in China.

Yet, it is common wisdom that the earlier you gain a foothold in a market, the better rewards you get. This is particularly true in conducting business with China in which mutual trust is only built up gradually over many years. Once an amiable relationship is established, however, the reward is manifold.

The vast domestic market in China with its huge population of over one billion, together with its drive for the four modernizations, is attracting increasing attention from foreign businessmen and corporations. How can the overseas Chinese in the region carve an edge over other countries in their trade relations with China? How can the mental and practical obstacles mentioned above be resolved? It seems to this author that setting up their business operations initially in Hong Kong is an answer to the dilemma.

In fact, Chinese from the Southeast Asian countries have an advantageous position to reap the benefits of the new gateway role that Hong Kong will assume. They will find it easier to adapt to the environment of Hong Kong and be more readily accepted by their counterparts in China. Besides, being ethnic Chinese also accords them another advantage not enjoyed by other foreigners. According to the experience of some foreign investors in Hong Kong, the mere presence of a company in the city can secure business with China to a certain extent, as the company will be approached by representatives from China to set up business in the mainland. It is commonly believed that China gives preferential treatment to ethnic Chinese in its business dealings. If foreign investors in Hong Kong are approached by the Chinese officials directly, there is no reason why ethnic overseas Chinese will not be treated likewise, and even more favourably.

In line with the above arguments, the next logical question then becomes: How can the Chinese business communities in the region capitalize fully on the historical turning point of Hong Kong that is of such contemporary importance?

The lack of a foreign exchange control system in Hong Kong does not permit the compilation of business undertakings with foreign capital, yet business circles have pointed out that investors from Southeast Asia are mainly interested in real estate and stock investment in Hong Kong. Indeed, as Table 2 shows, direct investment in manufacturing industries by the Southeast Asian countries has never assumed any significance in Hong Kong. Three Southeast Asian countries, namely, Singapore, the Philippines and Thailand, together contributed only 3 per cent of the investment pie in 1983. This may be partially explained by the fact that ethnic Chinese in Southeast Asia are still mostly bankers and traders.

For the businessmen who intend to tap the China market, however, something more needs to be done. The name of the game is "matching". To be successful, the overseas Chinese communities should look into fields that match the priority projects in the development plans of China. From recent trends in the economic performance and reform in China, priority is stressed in the following fields:¹⁴

1. Light industries, such as textiles, food processing, and telecommunications;
2. Energy development, such as coal and electricity;

TABLE 2

SOURCES OF FOREIGN INVESTMENT IN HONG KONG'S MANUFACTURING INDUSTRY
(In million HK\$)

Source	Investment					
	1971		1976		1983	
		%		%		%
USA	406.0	(53.5)	916.6	(49.3)	3,618.1	(46.2)
Japan	169.9	(22.4)	352.8	(19.0)	2,305.5	(29.4)
United Kingdom	85.9	(11.3)	144.3	(7.7)	452.4	(5.8)
Switzerland	13.5	(1.8)	14.5	(0.8)	262.0	(3.3)
Denmark	N.A.		N.A.		193.6	(2.5)
Netherlands	17.4	(2.3)	100.0	(5.4)	189.9	(2.4)
Australia	31.5	(4.1)	88.8	(4.8)	161.2	(2.0)
Singapore	8.7	(1.1)	61.3	(3.3)	133.8	(1.7)
Taiwan	9.5	(1.3)	12.5	(0.7)	96.1	(1.2)
France	N.A.		23.1	(1.2)	75.5	(1.0)
F.R. of Germany	6.2	(0.8)	48.7	(2.6)	71.5	(0.9)
Philippines	2.1	(0.3)	11.0	(0.6)	52.0	(0.7)
Thailand	2.5	(0.3)	49.8	(2.7)	39.2	(0.5)
Others	6.3	(0.8)	35.5	(1.9)	187.9	(2.4)
	759.5	(100.0)	1,858.9	(100.0)	7,838.7	(100.0)

SOURCE: Industry Department, Hong Kong.

3. Machinery, such as small tractors, diesel engines, fodder crushers, and equipment for rural industries;
4. Tourism and other services.

Hong Kong is renowned for its success in both the light industrial field and in tourism. Investors from Southeast Asia can perhaps, solely or in joint ventures, invest in such fields in Hong Kong to gain expertise and get established for further expansion in China. The field that holds the greatest promise is tourism.

China has made it known that greater stress is being laid on tourism as it is a significant foreign-exchange earner¹⁵. The 9.5 million travellers to China in 1983 brought US\$1 billion earnings to the coffer. Over 90 per cent of them were overseas Chinese. Many new international hotels are under construction, almost all of which are being built with foreign funds, a great proportion of which come from Hong Kong.

Apart from the tourism industry, Hong Kong's businessmen are active participants in many other ventures. In fact, Hong Kong investments form the single largest foreign capital in China. Hong Kong Chinese are already friendly with people from China and have wide contacts with Chinese traders. Chances of co-operating with the Hong Kong Chinese in conducting business in China seem limitless and enticing.

Conclusion

Hong Kong has long been the front castle for China in its international business dealings. With a high probability of becoming a special administrative region of China in future, Hong Kong's unique attraction as a bridge to China will definitely become more important to foreign investors. The survey results indicate that such importance may vary with countries, and this author contends that the gateway feature of Hong Kong should be important to the overseas Chinese in Southeast Asia. On the other hand, these overseas Chinese also have a better opportunity to capitalize on this unique feature of Hong Kong.

It is argued in this paper that the best trade prospects lie in those projects well matched with China's economic plan. To this end, the overseas Chinese may have to change their present investment patterns which tend to keep their capital liquid. Trading with China is an ongoing process calling for careful analysis, constant assessment, close vigilance, and above all, clear vision and courageous experimentation.

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* The author is indebted to her colleagues, Hon-ming Yau and Yat-ming Sin, for their helpful comments on statistical techniques.

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DOCUMENTATION

Le Duan's Speech at the Sixth Plenum of the CPV Central Committee

Speech by CPV Central Committee General Secretary Le Duan at the 3 July 1984 Sixth Plenum of the CPV Central Committee

Part 1: Introduction

Dear friends:

As we have reported, on 3 July, Comrade General Secretary Le Duan delivered a speech at the Sixth Plenum of the Fifth CPV Central Committee. The General Secretary's speech is composed of ten parts: 1) The labouring people exercise collective mastery; conduct the three revolutions simultaneously; 2) Build an industrial-agricultural economic management; 3) Associate planning with profit-and-loss accounting and socialist business with planning as the central task; 4) Carry out the scientific and technical revolution and socialist industrialization; 5) Achieve mastery in distribution and circulation; 6) Broaden economic relations with foreign countries; step up export and import; 7) Build a new culture and a new man; 8) Meet the needs of life and of accumulation of capital to achieve industrialization and ensure national defence and security; 9) Establish a mechanism of party leadership, people's mastery, and state management; and 10) Use the general strength of the revolution.

Beginning today, in our daily newcasts at 1800 and 2000 [1100 and 1300 GMT] we will have the honour to present this important speech by the Comrade General Secretary. In this current newscast, we are going to read its Introduction and Part 1 entitled: "The labouring people exercise collective mastery; conduct the three revolutions simultaneously":

Dear comrades, the current Central Committee Plenum will discuss the question of improving economic management. This is an important and urgent task which must be correctly carried out in order to bring into full play the achievements already recorded and take our national economy over the immediate difficulties and make it progress continuously and strongly.

Constantly improving economic management is our permanent and important duty. This duty has been set not only for our country, which is still at the initial stage of the transition period, but also for other fraternal socialist countries. During the past scores of years, in the process of building an advanced socialist society, the Soviet Union and other fraternal socialist countries have considered the perfection of the economic managerial mechanism to be one of the duties of prime importance, which is aimed at enhancing the production efficiency of the entire national economy, exploiting national potentials in depth, and developing the superiority of the socialist economy.

In our country, the question of renovating economic management was already set out in the programme of the party Central Committee soon after the Fourth Party Congress and was given particular attention at the Sixth Party Central Committee Plenum. At the Fifth Party Congress and subsequent plenums of the Central Committee, basic orientations were mapped out in this direction. Our party and state have made great efforts to further overcome bureaucracy and the ills of subsidization in the old managerial system, and have begun the building of a new managerial system aimed at correctly implementing the principles of economic management. This new managerial system is also designed to ensure the centralized and unified management by the central government, while developing the dynamism and creativity of establishments, localities, and sectors in production and business, achieving the labouring masses' right to collective mastery, and vigorously encouraging an increase in labour productivity and economic efficiency.

These initial results in economic management, as pointed out by the Fifth Party Central Committee Plenum, have made an important contribution to creating new changes in the socio-economic situation over the past three years. In spite of this, our national economy is still encountering many difficulties which can be seen in the following areas: material and technical bases are still weak; labour output, quality, and economic efficiency are still low; the socialist battleground has been narrowed in some respects; there still are lingering phenomena of disorder and indiscipline in the economic and social order; and the state machinery is not effective enough.

Besides the objective causes that the Central Committee has clearly pointed out on several occasions, we should realize the subjective shortcomings more fully, first of all in economic management. In this domain there are still numerous manifestations of conservatism and sluggishness as well as scatteration [sic] and localism. First of all, the party line has not yet been thoroughly understood or correctly concretized in a way suitable for the country's situation in order to create a more appropriate new managerial mechanism.

Under socialism, economic management must apply the objective laws already learned to ceaselessly enhance the efficiency of each production and business unit, as well as the efficiency of the entire national economy in order to achieve, at all costs, the socio-economic targets set by the leading party. Managerial practice and relatively widespread errors and shortcomings have attested to the urgency of the task of renovating management, both in its form and its content. We cannot avoid systematically examining everything — from the economic structure and production organizations to planning, the economic policies, and the managerial apparatus — in order to determine, on this basis, an appropriate managerial mechanism. This is no easy task, but it must absolutely be done and done correctly. Our efforts must be concentrated on resolving a number of key links at all costs.

A major advantage is that we already have at our disposal the rich experience of the fraternal countries in socialist construction in general and economic management in particular. We should refer to and apply this experience in a creative manner and should not copy it mechanically. To build a correct managerial mechanism, we must review our own experiences.

Taking our national economy from small-scale production to large-scale socialist production, bypassing the stage of capitalist development is an unprecedented occurrence in history but a necessity in modern times. The process of development from small-scale to large-scale socialist production poses a host of problems in theory and practice that should be resolved. These include thoroughly understanding the revolutionary line and the line of economic development, bringing into play the moving forces of development, strengthening

state management, enhancing the level of practical work organization, and launching mass revolutionary movements.

We will not be able to successfully manage the economy if we do not advance and grasp the sharpest theoretical weapon of our time: the method of dialectical materialism and historical materialism. The party must equip its cadres and members with a profound knowledge of theory and practice and promote among the contingent of leading and management cadres a correct way of thinking about economic matters, that is, a firm grasp and correct application of the economic laws and principled matters of the socialist revolution in our country. At this Central Committee Plenum, before going into resolving specific questions of the managerial mechanism, I would like to present these principled problems to the comrade members of the Central Committee, problems which have been raised very concisely and succinctly in the general line and the line of economic construction but which have not yet been fully understood or correctly applied by all of us.

If we fail to clearly realize the general principled problems and thoroughly understand the basic concepts of the line, we will not be able to make correct decisions concerning economic management.

1. The labouring people exercise their collective mastery; conduct the three revolutions simultaneously.

The line of socialist revolution set forth by our party clearly specifies: The labouring people acting as collective masters constitute the characteristic of the new regime. Establishing the collective mastery system of the labouring people is the comprehensive objective of the socialist revolution. The exercise of collective mastery by the labouring people is a completely new matter in our country as in other socialist countries. This is the very reason why one cannot easily realize its historical character.

To our Vietnamese people, the 4,000 years of national construction and defence have forged valuable and firm traditions for our nation: the will to master the country and a sense of community. Due to these traditions, our nation could stand firmly and not be assimilated after 1,000 years of domination by northern feudalism. Our forefathers victoriously fought the wars of aggression by the Chinese expansionist forces through many dynasties.

Now, under Marxist-Leninist leadership, these traditions unexpectedly meeting with the epochal trend created a great strength for the new regime, ensuring our people's ability to defeat the first two powerful imperialists — France and the United States.

Building the collective mastery system of the labouring people is to combine national traditions with epochal strength. As the nature of the new regime and the objective of the socialist revolution, collective mastery is the combined result of the three revolutions. It is established in close correlation with the new economy, new culture, and new socialist men.

The revolution in production relations creates the economic basis for the labouring people to exercise their collective mastery over labour, the means of production, production itself, and distribution and circulation. Making light of this revolution, no matter in which tasks, will also weaken the economic bases of the collective mastery system. Reluctance to carry out socialist transformation and failure to correctly carry out or emphasize the planning task, develop mastery over production and distribution and circulation, and properly implement the principle of distribution according to labour, and so forth are tantamount to allowing non-socialist economic elements to develop, eroding the socialist economy, and diverting economic activities from the fundamental socialist orientations.

The technological revolution creates the material and technical basis of socialism. This revolution gives the labouring people the ability to increasingly and more successfully master nature and society, erects the material backbone of the new regime, brings about the

victorious socialist national industrialization, and ensures total and permanent victory of collective mastery over individual mastery. If we lack zeal to adopt technology and determination to carry out industrialization, and if we delay in applying the technological revolution to the necessary tasks, production will mark time and the workers' livelihood remains difficult.

The revolution in production relations combined with the technological revolution forms the industrial-agricultural structure and the socio-economic, material and technical bases of the collective mastery system.

The ideological and cultural revolution builds new socialist men who know how to exercise collective mastery and have an ability and sense of mastery.

We must overcome the situation in which we neglect the ideological and cultural battlefield, and fail to resolutely struggle against the capitalist, colonialist, and feudalist ideologies, and criticize and transform the thinking, life-style, psychology, and the habits of small producers; the vestiges of former culture, and backward customs and mores which deprave man and incite egoism.

The collective mastery system is the whole body of all political, socio-economic, and cultural relations. It must be built in a uniform manner by simultaneously implementing the three revolutions.

The collective mastery system is not merely the final goal of the socialist revolution but is also the objective for daily revolutionary acts. The relations of a new socialist society take shape, develop, and ripen through each developmental step of the socialist revolution. We must promptly and gradually institutionalize these relations by appropriate organizations, plans, laws, and rules, in order to ensure that the labouring people can actually master their own life.

Depending on the development of the three revolutions, the collective mastery system is built step by step, from lower to higher echelons, and from imperfection to perfection. Properly established, the collective mastery system becomes the motive force of the socialist revolution. It makes the labouring people masters of society, nature, and themselves. Exercising mastery is to grasp regulations and act accordingly. When man can grasp the laws of society, nature, and thinking, and apply them to the organization and management of society, he will accelerate the evolution of history at unprecedentedly rapid rates.

The collective mastery system assures political, economic, cultural, and social mastery for the labouring people. Political mastery creates the integrated strength of three factors: the party leadership, state management; and the broad revolutionary mass movement of tens of millions of people. Economic mastery ensures unity between production relations and forces, intermingling production relations with production forces. It allows the immediate reorganization of some tens of millions of people to exploit land and develop sectors and jobs in accordance with a rational programme and nationwide plan. In combination with the technological revolution, it creates great production forces to triumph over poverty and backwardness. Cultural mastery creates conditions for the labouring people to develop the fine traditions of the nation, grasp the towering achievements of human intelligence, and transform them into material strength.

So, the collective mastery system brings about the three most powerful tools to the labouring people: political power, economic and technological strength, and ideological and cultural force.

The collective mastery system combines community force with individual strength. Society, family, and individuals are originally united, but human exploitation systems antagonize society to individuals and families. The collective mastery system unifies

individuals, families, and society in the most rational existence. It liberates society so that individuals can be liberated and takes care of the prosperity of society for the happiness of each family and each individual. It binds individuals to the discipline of the community in order to bring about adequate freedom to individuals. It combines community mastery with individual mastery, and brings about integrated strength for the entire country, each locality, and each collective. Individual mastery develops the physical and intellectual strength and ability of liberated people within the framework of and in conformity with community mastery.

The collective mastery system combines the strength of mastery at three levels: national, local, and grass-root levels. It creates the strength of the entire country.

Exercising mastery nationwide is the basic condition to exercise mastery over each locality and each primary installation. National strength stems from the primary installation and localities.

Mastery at a national level creates conditions for developing a mastery of each primary installation and each locality. Since the Fifth Party Congress, the revolutionary realities have given us fruitful lessons on developing collective mastery as the objective and motive force of the revolution.

The implementation of some correct policies of economic management at different levels has clearly made the source of this motive force of the collective mastery system stand out. All these correct policies have asserted the truth that the labouring people acquire their mastery not for any other purpose than their own benefits.

Karl Marx expressed this truth in a profound manner: once ideology is detached from interest, it will certainly disgrace itself.

Collective mastery is the only system capable of fostering the labouring people's lasting interest according to the basic economic law of socialism: to satisfy the increasing material and cultural needs of all society and each of its members by ceaselessly developing production on the basis of collective mastery and ever higher science and technology. In the economic domain, the system of collective mastery shapes a rational structure of interest. This is the unification of the interests of society, of the collective, and of the individual labourer, of which the interest of society is paramount and lasting, that of the collective is very important, and that of the individual labourer is direct. The system of collective mastery also demands and permits a harmonious association of the interest of the entire country with that of each locality and each basic unit, of which the interest of the entire country is paramount and lasting, that of the localities is important, and that of the basic units is direct. Once associated, these interests constitute a moving force that stimulates the labourer to produce and work increasingly better.

In economic management we must overcome the malady of bureaucratic centralism — which belittles the interests of the labourer, the basic unit, and the locality — as well as the maladies of localism, particularism, factionalism, and individualism, which make one concern oneself only with promoting the interests of the locality, the collective, and the labourer at the expense of the entire country. If we correctly care for the interests of the locality, the basic unit, and the labourer, we must also care for those of the entire country. If we ensure the interests of the entire country, it is also because of the interests of the locality, the basic unit, and the labourer.

The system of collective mastery not only ensures the labouring people's interests but also closely associates interests with power, obligation, and responsibility. Wherever there are interests there must also be power to guarantee that the interests are implemented. Interest and power, however, must go hand in hand with obligation and responsibility, the

highest ones being the obligation to and responsibility for the cause of socialist national construction and defence. If one has interest but no power, then one has no way to implement one's interest. Having interest and power but no obligation or responsibility will give rise to privileges and special interests. In any case, the relationship between interest, power, obligation, and responsibility must be institutionalized as laws, procedures, and regulations.

To ensure the people's interest and firmly defend the fatherland, there is no other way than exercising collective mastery.

In economic management we must adhere to the viewpoint of collective mastery, regarding it as the most important principle in economic management, and must achieve at all costs a harmonious association of the various interests. On this basis, we must bring the moving force of the system of collective mastery into full play, advance the three revolutions, and vigorously and steadily develop the economy.

Part 2: Build an industrial-agricultural economic structure

With the industrial-agricultural economic structure serving as a material foundation, the collective mastery system can economically reflect and guarantee its nature, its goals, and its driving force. In the process of advancing from a small production to large-scale socialist production, industry and agriculture must be linked together as a sole structure right from the outset. All establishments of the centrally- and locally-run economic sectors must be developed in terms of specialization and closely-organized union in production. Production forces and production relations must be bound together as an integrated whole. The economy must be linked with national defence and the division of labour in the country must go together with the broadening of international cooperation.

The structural relationship between industry and agriculture has been an objective reality from time immemorial when man ended the stage of gathering and was beginning cultivation in order to support himself with food and clothing. Preparing the soil with the most rudimentary tools, mankind at that time combined both agriculture and industry into one production movement. Throughout the course of history, industry has always been instrumental in deciding changes in the quality of agriculture, marking the development of mankind from the stone age to the bronze and steel ages and from the use of rudimentary tools to the use of heavy industrial machinery.

Being linked with and stimulated by industry in achieving growth, agriculture has always played a vital role in meeting mankind's ever-growing demands for food, clothing, and housing, and in supplying manpower and creating markets for industry. Enslavement and feudal systems, especially the capitalist system, have deepened the division between industry and agriculture and have caused a division between industry and agriculture and have caused a division between urban and rural areas. Although the relations between industry and agriculture are an objective reality that cannot be eradicated, these relations have spontaneously developed through marketing activities with numerous imbalances and irrationalities and have been distorted by the system of the exploitation of man by man.

Before the introduction of the labouring people's collective mastery system, mankind was unable to master the relations between industry and agriculture. Advancing from small production to large-scale socialist production, we advocate linking industry with agriculture into a structure right from the beginning in accordance with those regulations which have been integrated into party lines and which call for giving priority to developing heavy industry in a rational manner while promoting agricultural and light industrial development.

Binding industry and agriculture together into a structure will demonstrate the abilities of our country's workers and labouring peasants to join hands in achieving collective mastery in socialist construction under the party's leadership.

Priority must be given to developing heavy industry. Only by so doing can we fulfill the central tasks of the transitional period, namely carrying out socialist industrialization and creating what we now badly need for successfully building socialism and firmly defending the fatherland — a heavy engineering industry that is enough to provide modern technical equipment to the entire economy and can be instrumental in promoting the establishment and the strengthening of socialist production relations and training new men to suit modern, large-scale production. However, the priority development of heavy industry must be carried out rationally, by deciding at what stage we must concentrate on developing which heavy industrial branches. We must rely on the growth of agriculture and light industry to determine the scale and the extent at which we must develop heavy industry. In the initial stage, efforts must first be focused on prompting the development of agriculture and light industry if heavy industry is to acquire capital, manpower, and grain for its workers, equipment and raw materials for its factories, and markets for its products.

In the current initial stage, agriculture and light industry have the greatest potential for attracting the social work force and making full use of this work force and land as well as other natural resources of the country in order to turn out more products to meet the people's subsistence, material, and cultural requirements. However, every developmental step of agriculture and light industry will take place under the impact of heavy industry and will be aimed at creating more bases for the development of heavy industry.

In the relations between heavy industry and agriculture and light industry, the rational priority role of heavy industry as well as fundamental role of agriculture and light industry creates conditions for each other. Binding them together into a structure like this constitutes an evolutionary law of the economy.

In the initial stage of the transitional period, we must develop collective mastery into a driving force for rationally using our most valuable assets and our greatest economic potentials, namely manpower and land. We must arrange employment for all labourers and exploitation of all land.

The collective mastery system allows us to advance agriculture directly to large-scale socialist production, to carry out production and distribution of agricultural products in accordance with the national plan, to strengthen the material and technical bases of agriculture, to apply more advanced scientific techniques to agriculture, to complete the socialist transformation of agriculture, and to build a new rural life and new peasants.

We can redistribute labour in each locality and throughout the country in order to carry out intensive cultivation and increase the number of yearly crops. This is to go along with expanding the cultivated area and exploiting potentials in the deltas, midlands, mountainous regions, and sea areas. We must closely associate specialization with general business in agriculture, vigorously develop cultivation and animal husbandry, and achieve a close co-ordination between agriculture, forestry, and fishery.

Through these measures, we will strive in the present initial stage to fully use 10 million hectares of agricultural land and 15 million hectares of forest land, to cultivate an average of two crops a year on the land that has been under cultivation, and to arrange an allocation of crops and an animal husbandry pattern in a rational manner in order to make each hectare of land yield the highest economic benefits.

Practical results obtained along this line over the past few years prove our capability

of making agriculture advance toward fulfilling its three duties: ensuring sufficient food, clothing, and dwellings for the people and, in particular, producing sufficient grain for consumption and for reserve; supplying consumer goods industries with raw materials and agricultural products; and creating important sources of export goods.

Such an advance of agriculture to large-scale socialist production is not due to the efforts of peasants and agriculture alone, but it is also the result of the work of both workers and peasants or both industry and agriculture which are closely related to each other in a rational structure.

Agricultural development must be closely associated with development of consumer goods industries which include the foodstuffs industry and various light industrial sectors. Consumer goods industries play a very important role. They employ a considerable amount of labour, increase the value of agricultural products through processing, and manufacture finished goods to meet the consumers' needs. Therefore, they are in a position to produce enough goods for exchange with peasants, stimulate agricultural production, provide many items of export goods, help collect major revenues for the state budget, and cut down on overspending in an effort to stabilize the financial situation.

Over the past few years the production of consumer goods has increased slowly, manpower and equipment have been used at only half capacity, and the quality of many products has decreased. These shortcomings have directly stood in the way of agricultural production, created more difficulties for the state to control goods and the market, caused a slow development of exports and imports, and adversely affected the people's life. Presently we have the ability and there is a critical need to solve such problems as supplying energy and raw materials, reorganizing production, and renovating the managerial system in order to develop consumer goods industries both in depth and in breadth, from the central-level state-run industries to handicraft trades and sectors in the rural areas. If the volume of consumer goods increased by only 25–30 per cent, there would be marked changes in the state economic position and strength.

In the initial stage of socialism, to concentrate efforts on accelerating agricultural production and to actively develop the production of consumer goods is to strengthen the bases for building heavy industry. On the other hand, to advance agriculture to large-scale socialist production and accelerate the production of consumer goods, we must constantly hold firm to and develop the rational priority role of heavy industry in using really satisfactorily existing heavy industrial capabilities, building more necessary heavy industrial establishments, and ensuring the supply of more electricity, fuel, fertilizer, insecticide, basic chemicals, various kinds of equipment, machines, tools, spare parts, and construction materials. Heavy industry must rationally develop the production and increase the quality of export goods in order to gain more foreign currency to import equipment and materials for agriculture, consumer goods industries, and heavy industry itself.

The communications and transportation sector must be reorganized in all respects by broadly implementing the state-and-people-work-together policy in order to quickly and safely support production, construction, national defence, and the people's life.

In the coming years, special attention must be paid to accelerating the development of the energy and communications and transportation sectors which are the two key components of the infrastructure to ensure the conduct of all production and business activities. They are, at the same time, two vital and outstanding areas of the economy.

While orienting heavy industry towards primarily promoting agriculture and the consumer goods industry, we must make all necessary preparations such as establishing

economic and technical dialectics and winning the cooperation and assistance of fraternal and other countries to build heavy industry, design various projects, and further train workers and cadres.

We must always be active in making full use of all opportunities and abilities to proceed with building some of the key heavy industrial projects, especially the engineering and metallurgy industries. Without steel and mechanical engineering there would be no heavy industry or socialism.

We must strenuously struggle to build major and heavy machineries, accelerate the pace of the mining of oil and gas, quickly making oil and gas an economic trump card; build some more thermal and hydroelectric plants after the Song Da, Pha Lai, and Tri An projects; construct metallurgy installations of 500,000 and millions of metric tons of capacity along with some installations of some hundreds of thousands metric tons; and develop nonferrous metallurgy, the chemical industry, and the construction materials industry.

To sum up, in the very first stage, beginning with the five-year 1986-90 plan, we must gradually proceed with the tasks that will become the vital content of the next stage which is to build a network of developed heavy industry serving as the core for the modern economic industrial-agricultural structure.

In an economic structure, the paramount fundamental role rests with the primary units. Without primary installations, there will be no industry and agriculture nor central and local economies and the economy as a whole does not exist.

The primary units constitute the front line of the economic battlefield where all the material wealth, surplus products, and accumulated assets are produced, and where the labouring masses must daily and directly conduct the three revolutions under party leadership and state management.

In industry, primary units are factories or joint enterprises. In agriculture, which is advancing to large-scale socialist production, basic units are districts closely associated with co-operatives. With approximately 200,000 people and a cultivated area of about 20,000 hectares, districts play a role of historical significance, serving as a suitable area on which to gather forces from co-operatives, perform a new division of labour, make full use of land, develop sectors and jobs, link cultivation and animal husbandry to the processing of agricultural products, and combine the forces of co-operatives and districts with those coming from the provincial and central levels to create an integrated strength to develop the economy, build a new culture and new men, consolidate national defence, and ensure the people's livelihood and the recycling of production for expansion.

The fundamental task of economic management is to strive to consolidate and properly develop about 400 major factories and organize joint production in industry together with approximately 400 agro-industrial districts. In this way, we quickly increase social products, radically control goods and money, and create a strong backbone for the economy.

In this regard, we must most rationally reorganize production in each factory and each district and apply scientific and technical innovations to the production and business of each primary installation in order to achieve high productivity, quality, and effectiveness. We must extend independence to primary units, and enhance their dynamism and flexibility, concentrate the strength of all sectors at all levels on guiding and serving the primary installations, promptly eliminate weak installations, quickly turn fair installations into advanced ones, and rapidly review and disseminate the experiences of outstanding installations. This is the major guideline for renovating economic management.

The system of collective mastery on the three basic levels will naturally lead to an economic structure in which the basic units are rationally integrated into the central and local economies. The central economy encompasses the most important establishments of the entire country. These establishments, as the leading units of heavy industry, the consumer goods industry, and agriculture that employ modern technology and operate on a large scale, will help various economic and technical sectors to take shape at an early date, to become the pillars of the large-scale production system, to achieve specialization and sophistication, and to apply modern science and technology.

We must actively consolidate the existing economic and technical sectors and make every effort to steadily build new economic and technical sectors nationwide, to begin with the important ones. We must pay particular attention to the integration of adjoining and mutually complementary sectors, especially the integration of industry and agriculture. This is a strategic task both in the immediate future and in the long run. It calls for close co-operation and co-ordination among various ministries and the administration at all levels — provincial, municipal, district, and precinct.

The local economy encompasses medium- and small-scale establishments, establishments for processing agricultural, forestry, and marine products produced by localities; light industrial and building materials establishments of local significance; and a number of establishments producing work tools and production materials for local use. The local economy makes the fullest use of all on-the-spot resources and strengths to achieve the highest regional efficiency. It produces a great variety of goods, takes charge of their distribution and ensures the welfare of all the local population, creating a spectrum of rich colours for the economy and all society in each region. It combines economy with national defence, ensures on-the-spot logistics, and makes increasingly greater contributions to the cause of national industrialization.

By rationally determining the structure of the central and local economies and simultaneously developing them, we can link together all the three stages — those of simple co-operation, a manual work site, and a large engineering industry; correctly apply rudimentary and modern techniques and large-, medium-, and small-scale production; thereby advancing to large-scale socialist production in the most rational and active manner.

The economic structure and managerial mechanism are closely linked to form a single entity in which the economic structure decides the managerial mechanism while the latter serves the former and stimulates the shaping of the new economic structure. We must actively rearrange and reorganize social production, beginning with the basic units. We must set up a rational industrial-agricultural structure to serve both as a target and as a basis for the renovation of the managerial mechanism. Only in this way can the state plans and lever policies develop their effects as expected.

On the other hand, we should take the initiative in determining an appropriate managerial mechanism and apply this mechanism to build the new economic structure in strict accordance with the party line. The important links and weak aspects of the economic structure must be key targets in renovating the managerial mechanism.

In this spirit, at present renovating economic management means seeing to it that all establishments have independence in production and business and that the district level has sufficient right to mastery to successfully build industrial-agricultural districts. It also means that the local economy must be strongly developed; that the various economic and technical sectors, especially the key ones such as engineering, energy, communications and transportation, metallurgy, and chemicals, must be actively built; and that all establishments as well as

all sectors and localities must quickly apply science and technology and turn out large amounts of products of good quality to ensure the people's welfare and achieve accumulation for socialist industrialization.

Part 3: Associate planning with profit-and-loss accounting and socialist business with planning as the central task.

The economy is established on the basis of public ownership over the means of production just as the entire socialist regime was born in a planned manner. While planning the development of each primary economic unit, each locality, and each sector, we must plan the entire national economy and rationally organize all labour forces in order to use all labour objectives and means of labour effectively. From the viewpoint and scale of the entire society, we will mobilize all the material and intellectual forces of the regime, concentrate on fulfilling the various tasks, and achieve national objectives. This is a characteristic of the nature and superiority of socialism, which capitalism does not possess.

The collective mastery system allows and calls for the development of this nature and superiority from the very outset. We must plan the socio-economic development, build the various standards of self-consciousness and activity increasingly higher for the economic industrial-agricultural structure as well as for the entire socialist society, thus avoiding the crises that are part of the increasingly serious disease of the international capitalist system.

In our country, although the economy is still dominated by small production and the socialist production relations are not yet widespread throughout the country in this initial stage of the transition period, we always rely on the established collective mastery of the labouring people to develop the role of the socialist state and constantly grasp the planning task in a firm manner, considering it the centre of the economic management network for using plans to accelerate the development of production so we can meet the consumption demands of the entire society, assure national defence and security, and carry out national industrialization.

The realistic experiences in socialist construction show that planning is one of the fundamental, urgent, difficult, and complicated issues in the task of applying international laws and developing the many-sided motivating force of the new regime in creating a decisive factor for the victory of socialism, which has a higher labour productivity than capitalism.

Planning is the party's socio-economic platform. The state plan that arranges the economic structure, balances, proportions, and targets reflects the strategic selection of the national economy.

In this spirit, planning is to control all the assets in terms of labour, land, and other resources and to successfully use all the material and technical bases and production capacity to produce much wealth for society.

The major construction projects using hundreds of thousands of people and the capital of billions of dong, the state factories employing thousands of workers, and the production activities of each peasant and individual craftsman are all included in plans or absorbed into the orbit of plans. All the tasks from meeting the great and multifarious demands of the entire society and making long-term preparations for future generations to ensuring a normal everyday life of each household, raising small children, and caring for old people are calculated and reflected in the balances of the plan.

Plans must be the strongest leverage in the network of economic leverages and are not merely binding regulations. They actually contain in themselves a great force of stimulation and encouragement to the primary units, localities, sectors, and individual workers. Plans

must be the combination of carefully selected scientific and technical projects which guarantee the swift introduction of scientific and technical innovations into the national economy, create favourable working conditions, and compel all primary installations and workers to work according to progressive economic and technological standards and norms.

Plans must encompass the scope of the three revolutions. Economically, they must manage all the tasks in the process of recycling production and link production closely to distribution and circulation and consumption, and domestic markets to world markets.

In conformity with the three fundamental levels of collective mastery, we must build the three basic planning levels: the national level involving sectors, the local level, and the primary installation level. All three levels must be mastered by each planning level according to the appropriate scope and method of planning. The three planning levels constitute an objective entity and a unified political and socio-economic reality. The central task of management must be defined as the planning system from the central level to the primary installations. In this system, the plans formulated by primary installations, districts, and localities play a very important role.

Speaking of planning at three levels does not mean that a plan is decided upon a centre and is then divided into parts and handed down to the lower levels. Similarly, it does not mean that primary installations can formulate their own plans at will, regardless of plans by higher echelons.

Collective mastery at the three planning levels means that each level must actually master its own plan by formulating, balancing, protecting, and implementing its own plan. Each primary installation and each locality is extended ample authority so that it can refer to its guidelines and tasks, and the main national norms to exploit all the potentials of production, business, and labour units in order to achieve high effectiveness, ensure rational distribution, improve workers' livelihood, meet units' requirements of recycling production for expansion, and make more contributions to national industrialization.

While pointing out the need to give the primary installations, districts, localities, and sectors more authority to master plans, we also stress accordingly the necessity of enhancing the responsibility and duty of all these levels as regards the development of the entire economy and the livelihood of the people throughout the country.

Of the three planning levels, we uphold the priority position and decisive role of national planning. Although formulated first by the primary units, a national plan is not the simple addition of plans by primary units. A national plan must determine the orientation, objectives, and common tasks of the entire social economy. It must accurately indicate the sectors and the targeted areas where forces throughout the country must be concentrated. It must truly combine the plans by various echelons and sectors into major balances, main norms, and measures of implementation.

To do one's utmost and contribute to fulfilling the national plan must be the duty, conscience, and honour of every unit and each worker who exercises his collective mastery.

In the system of short, medium, and long-term plans, annual plans, and quarterly plans of all levels, the establishments also have their own monthly and weekly plans. Playing the key role, these plans are tools of management that must be flexibly and promptly readjusted according to changes in the socio-economic situation. If all capabilities can be discovered and fully exploited, positive factors can be fostered as soon as they emerge, and difficulties can be overcome as soon as they appear, it is due to such flexible readjustments.

At the same time, the five-year plan, divided into annual plans, plays an increasingly important practical role and gradually advances to become the principal form of planning. In the immediate future, we must urgently elaborate the 1986-90 five-year plan. Defining the

socio-economic strategy for the transitional period and the initial stage, formulating projects for the development and distribution of productive forces, and elaborating long-term plans are the basic tasks of the planning process that should be seriously promoted to concretize the party line, apply the laws governing the advance to socialism, open prospects, and guide the entire process of socio-economic development for a relatively long time.

On all levels, the planning task must be an economic task closely linked with pulsating life and the real socio-economic situation. In carrying out the planning task, we must use diversified forms to attract the active participation of the contingent of economic, scientific, and technical cadres and of large masses of the labouring people, thereby making sure that the plans on each level are truly an achievement of collective intellect.

Economic accounting is a socialist management method applied to establishments and production and business organizations. Each unit must adhere to its plan as the centre of activities. Exercising its right to mastery, each unit must calculate economic efficiency, mobilize all of its forces, bring into full play all growth factors, and exploit all capabilities through domestic integration efforts, through export and import, in order to formulate and implement its own plans in the best way possible, achieve financial independence, cover all its own expenses, make large profits, and correctly distribute them in favour of all the three interests — those of society, of the unit, and of each labourer.

It will not be economic accounting if all the aforementioned factors are not present, such as the use of the plan as the centre of activities, the financial independence of establishments, and the satisfactory distribution of profits in favour of all the three interests. To carry out economic accounting, we must establish norms and standards, compile statistics, and meticulously calculate efficiency. Economic accounting is not commercial accounting.

For production and business establishments, organizations, and sectors, socialist business precisely means the implementation of the economic accounting system. Socialist business also includes the novel ways of thinking and doing of people who exercise collective mastery and who are characterized by their undiminished sensitivity to economic efficiency.

All managerial levels and all managers, from the Council of Ministers, the comrades heading the various sectors and localities, the staff and combat cadres on the economic front down to each labourer, everyone, in performing his own specific functions and duties, must be imbued with the concept of socialist business and know how to conduct socialist business. The State Planning Commission is the general staff for socialist business and the state plans are actually the socialist business plans for the entire country.

If plans are not linked to economic accounting and socialist business, then they are merely the subjective products of bureaucratic management organs divorced from life. If economic accounting does not make plans for the centre of activities, then it will lose its nature and its soul and will no longer be economic accounting but simply manoeuvres characteristic of guilds and societies. To do business outside the plans is tantamount to veering away from the socialist orientation and extolling the dominating role of the law of value and of the market.

Using concrete methods and forms of planning and defining adequate economic lever policies to achieve the linking of planning, economic accounting, and socialist business to suit the initial stage of the transitional period in our country is the direction for renovating our managerial mechanism and planning work. This direction, both in the long run and in the immediate future, calls for overcoming bureaucratism, the practice of subsidization, and the tendency to run after the free market. It also calls for opposition to bigoted localism and particularism. This direction means that we must broaden the powers, uphold the responsibili-

ties, and increase the benefits of the lower echelons, first of all of the basic units and the districts.

Truly giving financial independence to establishments and truly upholding the right of all localities and sectors to take the initiative in production and business are to boldly and adequately promote the labourer's material interest, considering it is a very important factor among the material and spiritual moving forces of the system of collective mastery. It also means that we must develop the strength of each person and encourage individual initiative in conjunction with bringing into full play the collective strength. Broadening the independence of establishments and promoting the material interest and liberating the creative power of each labourer in parallel with developing the strength of the collective are meant to enable the labouring people to zealously and enthusiastically delve into science and technology, and work with productivity, quality, and efficiency. They are also meant to create favourable conditions for consolidating socialist order, enhancing the effectiveness of the legal system and discipline, and promoting the mass revolutionary movement, through which cadres must be selected and talents fostered.

Broadening the lower echelons' right to mastery in the economic field is to create necessary conditions for the central echelon to concentrate its efforts on achieving the major balances and firmly control the key elements of social reproduction, the most important building projects, and the products of strategic significance to the entire country. The central state must firmly hold in its hands the key elements of the national economy for three purposes: first, to provide guidance over the orientation and activities of the entire economy; second, to meet the entire country's demands for which the central echelon is directly responsible; and third, to ensure that the right to mastery of establishments, localities, and labourers is broadened — and this is a very important point.

Under the current conditions, in its plan each unit must be able to utilize four sources of material capabilities — the capabilities of the unit itself, the capabilities resulting from economic integration, the capabilities created by export and import activities, and the capabilities supplied by the upper echelons.

Plans must be able to bring into full play the great strength of the application of science and technology, to help renovate economic management, to promote absolute economization, and to stir up the people's revolutionary movement.

Part 4: Carry out the scientific and technical revolution and socialist industrialization

The scientific and technical revolution in the world is creating systems of automatic machinery, new sources of energy and raw materials, manufacturing industries, and facilities to control the economy and manage society with unprecedented quality and results.

The scientific and technical revolution is touching all domains of human life and activity and bringing about marvellous progress.

Science, together with technology, is truly becoming a force directly engaged in production. The scientific and technical achievements are materialized not only in equipment, tools, and materials but also in the advanced knowledge of operational regulations conforming to the laws of nature and society, modern production means in industry, the link-up measures for intensive cultivation to increase yields in agriculture, and new creative methods of economic management.

Many of the advanced scientific and technical achievements can be applied to those countries in which the economic development standards are still low. Developing the

superiority of the labouring people's collective mastery system, we can exploit this extremely important capacity of the scientific and technical revolution. We turn the scientific and technical revolution into the key component of the socialist revolution and we strive to create the material, political, and social conditions for it to develop vigorously.

We must simultaneously develop the three sciences: the natural, technical, and social sciences. We must build men of the new society into knowledgeable and self-conscious men who carry out the scientific and technical revolution. Our motto is to quickly surge forward and master by all means those scientific and technical domains that are necessary and can be acquired in the spirit of mastering by all means all that is required by the country.

We must develop the great creativity of the contingents of scientific and technical cadres, encourage innovations and inventions, select the advanced issues, and directly engage in modern technology or in those areas connected with the highest scientific and technical achievements. At the same time, we must also use the achievements of medium size and the necessary manual labour facilities.

However, in the collective mastery system, we can also grasp and apply the advanced achievements to manual labour such as those in the biological revolution, the regulations on increasing the productivity of cultivation and animal husbandry, modern industries.

Such a scientific and technical revolution is obviously not only the task of intellectual labourers and researchers in schools and institutes but basically it must be the undertaking of broad segments of the masses and must become the regular movement and working habit of tens of millions of workers.

The key role of the scientific and technical revolution is closely associated with the implementation of the central task of the transition period which is the socialist industrialization aimed at building the heavy machinery industry that is capable enough to provide modern technical equipment to the various sectors of the national economy. We must build the network of heavy industries and develop the technical infrastructure, especially the communications and transportation network.

As a result of such a connection, the steps and performance of socialist industrialization are the steps and performance of the scientific and technical revolution.

In the immediate future, while concentrating our efforts on advancing agriculture to a large-scale production through a rational industrial-agricultural structure, we must look ahead and calculate, preparing for the next stage of industrialization. We should clarify the general guidelines and determine the scientific and technical selections concerning each of the sectors such as the biological revolution, engineering, electronics, energy, metallurgy, chemicals, construction materials, communications and transportation, and so forth. These selections must stem adequately from the potential of the country concerning each sector and must lend themselves to the appropriate use of advanced achievements.

Concerning a number of decisively significant sectors such as engineering, the economy's nerve centre, we must pay attention to the fact that backwardness here will cause technological backwardness in all other sectors and that the longer backwardness is allowed to last, the more difficult it will be for us to overcome it. For this reason, we must quickly advance some decisively significant sectors into modern technology at an early date.

The choice of scientific and technological orientation must be united with the choice of socio-economic orientation. Science and technology must produce optimum economic efficiency and the economy must be modern in terms of science and technology. This orientation must be implemented in the general economic, scientific, technological, and social programmes serving as the core of the national economic plans. Science and technology are

not only the basis of socio-economic activities but also the intrinsic requirement of these activities. In economic management we must introduce progressive scientific and technological achievements into the substance and methods of planning, the lever policies, and the organizational forms so that the new managerial mechanism may employ science and technology as direct productive forces.

Thus, there are two closely related aspects: one is that we must enhance the scientific and technological level of management to ensure that decisions on investment, production, distribution, circulation, and consumption are made quickly and correctly; the other is that we must shape a managerial mechanism which really helps promote production through science and technology, thereby making it possible for us to ceaselessly improve products, save on material consumption, and achieve high productivity, quality, and economic efficiency.

Favourable conditions already exist for us to advance the scientific and technological revolution. The contingent of scientific and technological cadres is increasing relatively quickly. This contingent is approximately 850,000 strong, including middle-level technical cadres. There are also nearly 1 million skilled workers. The distribution of these cadres is being readjusted along the line of assigning more of them to production establishments.

Many scientific and technological cadres are endowed with talents and quality. The scientific and technological research and management organizations have also rapidly developed, shaping a system from the central echelon to the enterprises and co-operatives.

Work in the field of scientific research and technological application has recorded praiseworthy achievements in agriculture, industry, communications, building, and basic natural surveys. Tens of millions of labourers in the countryside and the cities, surmounting countless difficulties, have carried out numerous innovations to promote production and have applied the progressive achievements of science and technology.

The scientific and technological capability of our cadres and people has not yet been correctly appreciated and satisfactorily utilized in various tasks ranging from the development of the initiative and creativity of the masses on the spot to work out concrete scientific and technological measures and the concentration of forces on resolving the problems of each sector's scientific and technological development, to the general mobilization of all the contingent of natural science, technological, and social science workers in combination with the labourers' intellect to formulate general projects and plans for the social economy.

Our planning methods, management policies and procedures, and work organization style have not yet encouraged and compelled everybody to apply science and technology. Worse still, there have been cases in which scientific and technological progress has been rejected in favour of the maintenance of obsolete modes of production. The policies concerning scientific and technical cadres, such as the policies on training, education, creation of conditions and facilities for work, and caring for the material and spiritual life of cadres, still contain many unsatisfactory points.

The basic orientation of the task of renovating the economic managerial mechanism and even the scientific and technological management mechanism is to overcome the aforementioned shortcomings, making it possible for the new managerial mechanism to truly pave the way for science and technology to become an inherent part of all economic decisions and a growth-stimulating factor of the economy. Scientific and technological cadres must be placed in their right positions; they especially must be correctly deployed in production, research, and experimental establishments. They must be treated not mainly

according to their degrees and academic titles but must be paid, commended, and rewarded according to the socio-economic results of their creative labour in production and life.

This mechanism also ensures the mobilization of the participation of tens of millions of labourers in the scientific and technological revolution that is taking place daily.

SOURCE: *Foreign Broadcast Information Service (FBIS)*, 17 August 1984.

BOOK REVIEW

Political Economy of Philippine Commodities. By Randolph S. David et al. Quezon City: Third World Studies Center, 1983. Pp. 310.

The volume is a collection of four studies of primary commodities which are of vital significance to the Philippine economy, namely: bananas, sugar, coconuts, and Virginia tobacco. "Political economy" in the title of the book aptly hints at the special slant of the studies which are not merely intended to give economic descriptions and analyses of four export industries but to delve more deeply into the murky politics that underlies the actual workings of each particular export commodity, its colonial past as in the cases of sugar and coconuts, and/or its development in recent years as in the cases of bananas and Virginia tobacco.

The volume suffers from a wide variability in the level of the analysis adopted for each particular industry. For instance, the lead study on "Transnational Corporations and the Philippine Banana Export Industry" is an informative description of the phenomenally rapid growth of the Cavendish banana industry in the southern island of Mindanao beginning in the late 1960s and the subsequent dependence of many small land-owners and thousands of landless plantation workers on a few large corporations which have gained a veritable stranglehold on the export and marketing end of the industry. It deals at some length with the early efforts to start the industry in the 1960s and the contortions the Philippine Government apparently had to go through in order to enable a few transnational corporations to gain a foothold in Mindanao. Undoubtedly, not a few of the early advocates of the banana export industry were sincerely optimistic that the new industry would bring untold benefits to the country. The study by David, Rivera, Abinales, and Teves, however, focuses not so much on the positive gains to the Philippines in terms of foreign exchange receipts which are unquestionably substantial but on the increased dependence of the small banana growers on the plantation owners and banana exporters for the new technology and credit which have entrapped many of them into perennial indebtedness. According to the authors:

the Philippine's bargaining position in the banana industry is very weak. It is at the losing end of a lopsided partnership with powerful agribusiness TNCs [and] . . . faced with . . . TNC control of refrigerated boats, TNC ownership of brand names and the sheer financial muscle of TNCs. The vulnerability of the Philippine banana industry . . . is further demonstrated by the absence of alternative employment . . . , especially non-corporate ways of utilizing the land productively; the refusal of authorities to implement measures which will threaten . . . foreign-exchange generating activities and the general attitude of obsequious receptiveness to TNC activities which is characteristic not only of public officials but also of local investors (p. 105).

While the authors do not recommend the "total closure of the plantations and the conversion of these lands back into farms that will produce staple food for local consumption" they recommend "a planned phasing out of at least half" and that "All attempts to resuscitate these farms . . . must immediately be stopped" (p. 106).

The study "In Extreme Uction: The Philippine Sugar Industry" by A. McCoy focuses on the expected "massive displacement of a labor force" with few alternative job opportunities when the mechanization spreads to other sugar districts. The very high cost of production of Philippine sugar compared with other producers, such as Australia, requires rationalization of the industry; otherwise, the industry will not be able to survive. The present relatively inefficient method of production is traced to the preferential treatment that the Philippines enjoyed when it was granted duty-free sugar quotas in the U.S. market up to 1974.

Assured of a market and prices often above the world price of sugar, the industry became uncompetitive. Moreover, the *hacenderos*, as the sugar planters are called, took a feudal and paternalistic attitude towards their workers by providing them with housing, usually substandard, and other accommodations such as consumer-credit without the usual requirement of collateral, but also keeping the *sacadas*, as the sugar workers are called, in almost perennial indebtedness.

The study highlights the role of the Philippine National Bank (PNB), which was established to finance the sugar industry in 1916 and has remained virtually a sugar bank over the years. The political clout of the sugar-industry block is traced over the years although that clout has declined during the period under martial law because the old sugar oligarchs are generally considered to be in the opposition. The ascendancy of Mr R. Benedicto, however, has gained for the Marcos government control over the sugar industry.

The role of the government which extends not only to the provision of credit at relatively favourable terms through the PNB but also to the marketing end through the National Sugar Trading Authority (NASUTRA) and the Philippine Sugar Commission (PHILSUCOM) is pervasive and illustrative of its increasing intrusion into areas where the government has no distinct advantage. In fact, the well-known inefficiencies of government bureaucracy would be a disadvantage especially in marketing.

"The Political Economy of the Philippine Coconut Industry" by Rigoberto Tiglao focuses on the problems which plague an industry which accounts for "74 per cent of commercial croplands . . . and 23 per cent of Philippine export earnings . . ." (p. 181). He argues cogently the case for less inequality in the sharing of benefits from the Philippine coconut industry.

Using the standard Marxist formulation and assumptions he calculates the distribution of the total value of coconut exports among the different classes (Table 16, p. 269). Peasants and rural wage workers get 21 per cent while non-working landowners get 34 per cent. The Coconut Consumers Stabilization Fund (CCSF) and the Cocofund Levy and Export Tariffs accounted for 25 per cent in 1974-75. The study emphasizes the unequal exchange in the copra market compared to other areas in the industry. Assuming some backward shifting, it would seem ironic for the government to impose on an already impoverished industry compulsory contributions of 25 per cent of the value of coconut exports, a "tax burden" which is even greater than the total share of peasants and rural workers in the industry, according to Tiglao's calculations.

The study, however, fails to alert the reader to the dangers of increasing government control over the primary commodities sector which is, perhaps, best illustrated by recent developments in the coconut industry. Using funds accumulated from the compulsory levies on coconut products, UNICOM, a private milling and marketing company, was organized. Subsequently, UNICOM purchased the United Coconut Planters Bank (UCPB) which became the depository of the coconut levies without, however, having to pay interest on these deposits which amounted to several billion pesos, according to some estimates. According to a

recent study, the monopsony position of UNICOM has resulted in lower prices for copra than otherwise, which has meant the loss of potential revenue to coconut farmers, amounting to hundreds of millions of pesos. It is well known that Mr E. Cojuangco, the new coconut czar is close to the Marcos regime, confirming a pattern which seems to prevail in all the four primary commodities studied in this volume.

The long sections on Marxian and Leninist analyses on the exploitation of labour starting from the Theory of Surplus Value to the Theory of Ground Rent as Surplus Profit became tedious at times, illustrating the wide variability in the level of analysis adverted to earlier in this review. Some of those sections could have been shortened without detriment to the volume.

The study on "The Philippine Virginia Tobacco: 30 Years of Increasing Dependency" by P.T. Mejia focuses on the various programmes the government has pursued to encourage this industry since the early 1950s. The history of the industry is replete with stories of graft and corruption in the implementation of the different programmes, including vivid descriptions of intermittent power struggle between political factions in the Ilocos region where the industry is mostly concentrated. If any lesson is to be learned it is that the government is patently inefficient in implementing subsidy and marketing programmes of this sort. Millions of pesos have literally been lost by the government but not necessarily to the benefit of the small tobacco farmers; in fact, often at their expense. Similar statements could easily be made regarding the implementation of other government programmes dealing with primary commodities.

The four studies reviewed above, though lacking a unifying focus because they were originally undertaken for varying purposes, nevertheless constitute a coherent volume in "their common attention to the social and economic conditions" and the injustices as perceived by the seven authors with their varied academic/disciplinary backgrounds. While some economists might quarrel with portions of their analyses, it would be difficult to disregard the "patterns of power and domination and the persistence of a particular culture that helped to reproduce what . . . can only be seen as an irrational, unjust and inhuman system" (p. vii).

Obviously political in its intent and orientation, the book serves to open the eyes of those readers who may not be fully aware of the total situation.

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Oil Substitution in ASEAN: Problems and Prospects

ANG BENG WAH

The increase in the price of internationally traded oil that took place during the 1970s gave rise to widespread problems of economic and energy adjustment throughout the world. In the oil-importing countries, oil imports made increasing claims on export earnings and caused balance-of-payments problems. In addition, the coupling of the energy system and the economic system led to accelerated inflation, and lower economic growth rates, and almost every aspect of economic activity was affected because of the escalation in oil prices. Thus, reducing oil demand has become a matter of great urgency for these countries. The oil-exporting countries, on the other hand, were beneficiaries of the rise in oil prices. However, they were faced with the problem of rapid growth in domestic oil demand resulting from the sudden increase in national income and, in many of these countries, the setting of domestic oil product prices at levels substantially lower than international levels. These countries have now also realized the need to reduce domestic oil demand, both for the purpose of channelling more of the oil produced for export and for conserving this depletable resource for the long-term future. The present uncertainty surrounding the world oil supplies is expected to remain unchanged in the foreseeable future. Internationally traded oil will continue to be the main balancing fuel to meet fluctuations in energy demand, and sudden changes in the price of oil due to scarcity or glut would in the future, as in the past, adversely affect economic growth.¹ This further reinforces the need to reduce oil use and diversify the sources of energy supply, particularly in the countries which are highly oil-dependent.

There are two possible ways of reducing oil use: to use it more efficiently, and to increase the use of alternative energy sources. This paper is concerned with the latter. More specifically, it is concerned with the problems and prospects of switching away from using oil as an energy source, or to find an oil substitute, in ASEAN.

The Energy Scene: Past and Present

Throughout most of its history the world oil industry has been strongly influenced by an inherent surplus in production, with more available than is wanted at the current prices.² Oil, which exists in liquid form, has a high calorific value, and is easy to transport and use compared to most other primary energy sources. Because of low prices and convenience of use, oil had been substituted for coal and became the single most important energy source in the world by 1973. The world oil out-

look changed dramatically in 1973 when oil prices increased fourfold within a very short period of time. Since then, oil production in the Organization of the Petroleum Exporting Countries (OPEC), particularly in the Middle East, has been limited by policies intended to hold up prices and preserve oil resources for the longer-term future. Oil has since been traded at prices significantly higher than the pre-1973 levels. The nominal posted price of Arabian Light per barrel (f.o.b.) rose from US \$2.50 in 1972 to US\$34 in 1982, and is currently about US\$29.

The countries of the Association of Southeast Asian Nations (ASEAN) are highly dependent on oil for energy use, more so than most of the countries of the world. Throughout the period 1960–80, oil accounted for an average of 90 per cent of the energy consumed in the region (total energy consumption excludes the so-called “non-commercial” fuels such as wood, charcoal, and crop residues).³ Owing to the uncertainty of oil supplies and the spiralling of oil prices, the countries of ASEAN have focused on the need to fully exploit alternative energy sources for domestic use. Because of the long lead times of major energy projects and delays, however, only a few of the projects undertaken have been completed and come into operation. The market share of oil in ASEAN energy use has dropped, but only marginally. ASEAN oil consumption in 1972 was 31 million tonnes (1 million tonnes of oil is equivalent to about 20,000 barrels of oil use per day for a year). It rose to 54 million tonnes in 1980, and subsequently to 57 million tonnes in 1982.⁴ In nominal terms and taking the posted prices of Arabian Light as reference, the market value of the oil consumed rose from US\$0.6 billion in 1972 to a hefty US\$14 billion in 1982. The drop in oil prices since early 1983 has meant that the costs of the oil consumed in the past two years have been below those in 1982. However, the costs, even in real terms, have been very much higher than the pre-1973 levels. World demand for oil is currently below potential supply. It will remain so for the immediate future unless there is a large and unexpected disruption of supplies from the Middle East. However, with a modest recovery in the world economy, the margin of oil supply over demand is likely to become smaller, and with continued growth the price of oil would begin to rise.

The Potential for Oil Substitution in ASEAN

In examining the scope for oil substitution in ASEAN, it is important to begin by analysing how oil has been used in the region. Table 1 shows the distribution of oil product consumption in the ASEAN countries in 1980 and gives some clues to the extent to which dependence on oil can be reduced. In 1980, oil provided 92 per cent of ASEAN's energy requirements. Transportation and industry each accounted for 35 per cent of the oil used, and the share taken by the household/commercial sector was 27 per cent. Transportation was almost entirely oil-based. The industrial and household/commercial sectors were also highly dependent on oil, but the levels have declined slightly since 1980 because of the increased use of coal and natural gas as well as electricity generated by non-oil fuel. In 1980, about 21 per

TABLE I
USES OF CRUDE OIL AND OIL PRODUCTS IN ASEAN, 1980
(In million tonnes of oil equivalent)

	Direct final use	Indirect in the form of electricity	Share of refinery consumption	Total of oil use	% of oil use by consuming sector	Oil as a % of commercial energy use
Transportation	18.0	—	0.8	18.8	35	100
Industry	12.2	6.0	0.8	19.0	35	89
Household/Commercial	8.7	5.1	0.6	14.4	27	90
Non-energy uses	1.3	—	0.1	1.4	3	48
Total or average of above	40.2	11.1	2.3	53.6	100	92
% of total oil consumption	75%	21%	4%	100%		

Notes:

1. In the above, all oil consumption has been allocated to one or another of the final consuming sectors.
2. In the case of electricity, final consumption of electricity has been adjusted to include the appropriate share of energy-sector consumption of electricity and line loss. The total consumption of electricity by the final consuming sector has been adjusted to include only that proportion of all electricity which was generated in 1980 by oil-fired stations.
3. Energy use in transportation includes all aviation fuel consumption but not marine bunkers.
4. Non-energy uses are fuels for feedstock and such oil products as bitumen, lubricants, etc.
5. Synthetic gas was manufactured from oil in ASEAN but the amount involved was very small and can be excluded.
6. The last column in the above gives the proportions of oil (including that used indirectly as electricity) in total commercial energy use in individual final consuming sectors. The total commercial energy consumptions comprise oil, gas, coal and primary electricity, but do not include non-commercial fuels such as wood, crop residues and charcoal.

SOURCE: Author's estimates based on References 6 to 16.

cent of all oil consumed (allowing for a share of refinery consumption) went to electricity generation and was not used in the form of an oil product.

The one-fifth or so of the total oil used which went into electricity generation provides the greatest opportunity for oil substitution. Slightly more than two-thirds of the electricity generated in ASEAN is oil-based. Electricity is a clean fuel, versatile and easy to control, but relatively expensive. Electricity, therefore, tends to be used where it has no convenient substitute or where special circumstances offset its cost disadvantage. These applications include lighting, air-conditioning, electronics, control and automation. Any shift towards the use of electricity is to be welcomed, since it is very much easier to substitute non-oil fuel for electricity generation than elsewhere in the economy.

The use of coal and natural gas in industry in the ASEAN countries is still low compared to oil. Excluding fuels for three specific uses, namely, coking coal for metallurgical purposes, specific electricity uses and fuels for feedstock, fuel consumption in industry can be divided between steam generation and direct heating for large kilns, heaters, ovens and dryers. In principle, much of the steam or heat requirements in the more energy intensive industries, such as chemicals, oil refining, paper manufacture, building materials and food processing could be provided by the direct use of coal or natural gas. However, in the ASEAN countries, many of the possible candidates for coal or natural gas utilization are poorly located in relation to centres of coal or natural gas production, or they are limited by the problems of storage and transportation of these resources. Thus, the future substitution of coal for oil in industry in ASEAN is likely to be highly selective, being confined at first to major establishments requiring coal for bulk steam raising and located at coastal sites or near to a coal mine. In order to use natural gas it is necessary to construct a pipeline network to link the gas fields to the consumers or to set up industries close to the gas fields, as is being done in Malaysia.

In industry, the rate of market penetration of non-oil energy resources will be limited by the equipment used. It will rarely be economical for oil-fired boilers to be replaced by coal-fired boilers except when the former is near the end of its efficient life-time.¹⁷ Replacement of equipment tends to be faster during periods of high economic growth; thus, under high growth conditions we may expect more rapid inter-fuel substitution. As Southeast Asia is one of the most rapidly growing regions in the world, ASEAN is in a better position than many other countries to switch away from oil use in this respect.

In the short term, the cement industry provides the greatest opportunity for oil substitution in ASEAN, and this has already been done in Indonesia and the Philippines. The conversion of cement plants from using oil to using coal can be easily implemented and is generally cost effective if there is convenient access to cheap coal. Based on the current production level of cement and the average energy requirements to produce a tonne of cement, the total energy consumption in the cement industry of ASEAN has been estimated to be equivalent to about one-seventh of the total industrial energy use.³ The opportunity for oil substitution in this industry is, therefore, fairly substantial.

Energy requirements in the household/commercial sector in ASEAN are provided mainly by oil products (such as kerosene and liquefied petroleum gas), electricity and non-commercial fuels. Electricity is used in lighting and air-conditioning and for operating household appliances. In these applications there are no readily available substitutes for electricity. Oil products are the principal fuels for cooking, and water heating, and in the lower income households, kerosene is also used for lighting. In Indonesia, kerosene was so widely used for these purposes that it constituted one-third of the oil consumed in the country in 1980.¹⁰ In ASEAN, the two most likely candidates for replacing oil in the domestic/commercial energy use are natural gas and electricity. Gas can replace oil for almost all the applications provided by the latter. Technically, all the energy requirements in the household/commercial sector can be provided by electricity. However, for heating purposes such as cooking and water heating, electricity is still a rather expensive fuel compared to kerosene, LPG (liquid petroleum gas) or manufactured gas. There is a general trend towards a greater use of electricity, with a bias towards its use for non-heating purposes, as household incomes rise. An increase in the share of electricity generated by non-oil energy sources would, therefore, indirectly provide opportunities for oil substitution.

It is unlikely that inroads will be made in the use of coal in the household/commercial sector because coal is generally regarded as less convenient than oil, gas or electricity. However, coal can be used indirectly in the sector to provide synthetic gas and to generate a proportion of the electricity consumed. Non-commercial fuels still provide the major part of the household energy needs in Indonesia, the Philippines, Thailand, and to a lesser extent Malaysia.⁵ Fuel-wood shortage as well as rising household incomes have led to an increasing number of households in these countries shifting away from fuel-wood to kerosene for cooking. This trend will continue as incomes rise, and will put additional pressure on oil use. The pressure can be relieved by the development of natural gas, coal or certain non-conventional energy sources such as biogas, specially geared towards replacing kerosene. It can also be mitigated through active programmes on reforestation to overcome fuel-wood shortages, and through improving the fuel efficiency of wood-using cooking stoves.

The scope for switching away from oil in transportation is extremely limited in the short and medium terms. This is a worldwide phenomenon and not confined only to ASEAN.¹⁸ In road transport, where the bulk of transportation energy now goes, the transition to electric cars will depend on a breakthrough in battery technology. Electric vehicles based on rechargeable batteries can scarcely take a significant share of the market until the end of the century. There is also no economically viable alternative to liquid fuels in air transport. Railways and railway-based mass rapid transportation systems using electricity provide the only opportunity for oil substitution in the immediate future. However, these transport systems are rather small energy consumers compared to road or air transport. With limited scope for oil substitution, the main emphasis in reducing oil demand in transportation has been, and will continue to be, conservation.

From the foregoing, the final energy demands and the energy conversion sectors in ASEAN can be grouped under three categories in terms of the opportunity for oil substitution: the first for which the switch from oil to other fuels can be readily achieved, the second for which the switch is technically possible, and economically feasible if the relative cost of oil to other fuels in final usage are sufficiently high and there is convenient access to these other fuels, and the last for which no switch is likely to happen for the foreseeable future due to economic and technical reasons. In ASEAN, the first category of consumers include electricity generation and certain large industrial establishments which require substantial bulk heat. The second category includes most of the remaining industrial sectors, as well as cooking and water heating in the household/commercial sector. The third includes the whole of the transport sector except railway-based transportation systems, and certain feedstocks and fuels for non-energy uses.

According to the data in Table 1, if the direct final oil use in industry is reduced to half, and oil use in the form of electricity to one-third of their corresponding levels, then oil consumption share would drop to about two-thirds of the total energy consumption. The oil-intensive transportation sector consumes about one-third of the total oil used and this sector will remain largely oil-based. The remaining one-third of oil is mainly consumed in the household/commercial sector, as well as in the industrial sector. This oil use is replaceable if rigorous substitution programmes are implemented. A realistic estimate would be that about half of the oil consumption could be replaced at the present conditions.

There are differences in the structure of energy demand, and hence the scope for oil substitution among the countries of ASEAN varies. However, opportunities exist in all the countries. Countries with natural gas resources are the most well-placed to achieve oil substitution, as gas is a clean fuel and can be used in most of the final consuming sectors and for electricity generation. Even in Singapore, where oil accounts for all the energy required, the potential is great. Slightly less than two-thirds of the oil consumed internally in Singapore (excluding aviation fuels, refinery use and marine bunkers) is currently used for electricity generation.¹⁹ If half of the electricity were to be replaced by other energy sources, such as by natural gas, the market share of oil would be reduced by nearly a third.

Alternative Energy Sources

The alternative energy sources that are available in ASEAN for oil substitution include coal, natural gas, hydro-power, geothermal energy, and some non-conventional energy sources. The problems and prospects of each of these energy sources, including nuclear energy, in oil substitution are considered in turn.

Coal. Coal is used in Indonesia, the Philippines and Thailand for electricity generation, by railways, and in industry. The amount consumed, however, is relatively small compared to oil. In the other ASEAN countries, coal consumption is negligible. The coal industries in ASEAN had been in decline until 1973. Since

then, coal has become more competitive and there has been renewed interest in this energy source. New investments have been made in Indonesia, the Philippines and Thailand to raise coal production, primarily from existing mines. As a result, both coal production and consumption have increased but only marginally.

The ASEAN countries are faced with several problems in their attempt to increase coal use. Coal reserves in the region are mostly small in size, with the possible exception of those in Indonesia. In Indonesia, estimates indicate that the possible and probable reserves are fairly large but the identified reserves are considerably smaller. The coal found in ASEAN is generally low in quality, geologically difficult for large-scale mining, or exists in remote areas which are uneconomical to develop. Current production in Indonesia, the Philippines and Thailand come from relatively small mines. The ASEAN countries did not have the experience of large-scale use of coal. The necessary infrastructure for coal handling, transportation and storage therefore does not exist. The development of both new mines and infrastructure require a long lead time and considerable capital investment. There is also a lack of experience in coal use technology. For instance, in the Philippines, renewed interest in coal led to a rise in coal production. However, the demand for coal was lower than the production capacity of the existing coal mines, and production had to be cut down.²⁰ The depressed demand for coal was due to difficulties encountered in the process of switching from oil to coal as well as the problems of coal transportation. A problem faced by Indonesia in switching from oil to coal, or to other energy sources, lies in the high subsidies given to oil products.¹⁰ The retail prices of oil products had been kept at extremely low levels until very recently, and this had concealed the potential competitiveness of coal for local use. The coal produced in Thailand is mostly low quality lignite. It is mainly used in small electric power plants built in the vicinity of the coal mines.

Other problems which are associated with coal use include environmental pollution and labour problems. The combustion of coal creates health risks in the form of air pollution and toxic trace elements released into the air, the water supply, or the food chain. Increasing awareness of these environmental and health problems has led many industrialized countries to introduce legislation for pollution, hence raising the cost of coal utilization. Environmental regulations on emissions from coal-burning appliances may inhibit the increased use of coal except in major plants where the required technological skills are available to maintain the anti-pollution systems. The dominant role of labour in coal mining also has a vital effect on the supply of coal. Labour still constitutes a significant cost factor in coal mining. The coal supply may thus be subject to unforeseen interruptions caused by labour problems.

Natural Gas. In energy terms, ASEAN's natural gas reserves are the largest of all the conventional energy sources, even exceeding its oil reserves. Fairly substantial natural gas reserves have been discovered in Brunei, Indonesia, Malaysia and Thailand. Because of the high cost of transport and infrastructure required, gas resources far from consuming centres have rarely been developed in the past. The

rise in the cost of oil has, however, led to the conversion of many of these remote resources into economically viable reserves. One of the outcomes has been the development of LNG (liquefied natural gas) trade, as in Brunei, Indonesia and Malaysia. However, in LNG trade, payments to producers are severely reduced from the delivered price of gas by the high transport costs. Thus, to the producer, wherever possible, it is more advantageous to use the gas internally and to export the oil it has replaced.¹⁰

Natural gas provides a clean and convenient fuel and an important chemical feedstock. However, the utilization of gas entails heavy investment in infrastructure such as gas pipelines, storage tanks and distribution networks. Major developments are currently under way in Indonesia, Malaysia and Thailand to use the natural gas for oil substitution. In these countries, gas has already been or will be used for electricity generation, transported by pipeline network for household, commercial and industrial uses, and used to develop a local chemical and petrochemical industry. Even then, the development of the natural gas industry in these countries has so far been limited to markets that could be economically connected by pipelines to the gas reserves.

The expense of constructing a pipeline network can only be justified where there are both large reserves and assured demand. There are opportunities for increased domestic use of gas in Peninsular Malaysia, Java and Central Thailand where the demand is great. In addition, there are opportunities for the trading of gas between Malaysia or Indonesia and Singapore.

The utilization of natural gas may be extended to non-traditional uses such as transport fuels. LPG may be extracted from natural gas to be used in road transport. Natural gas can be converted to methanol which can be used in transport, either by mixing it with gasoline, or by using catalytic conversion to produce high quality gasoline from methanol. If this route to fuel for transport becomes economical, it is possible that natural gas could meet a substantial part of the energy required for transport. In short, the prospect for switching from oil to gas in ASEAN is extremely good.

Hydro-power

ASEAN is rich in hydro-power resources. However, it has been more cost effective to produce electricity by oil than by hydro-power, and hence the development of hydro-power has proceeded at a very slow pace. Hydro-power sites that have been developed are generally small and are confined to the low-cost ones close to existing electricity markets. Hydro-power has become more attractive since the escalation in oil prices. However, the large and undeveloped sites are generally far away from potential markets, rendering many of them still uneconomical for development. Indonesia, Malaysia and the Philippines have already developed most of their low-cost sites close to existing power markets. The remaining sites are far away from potential markets despite the fact that they are large and quite cost-effective in terms of onsite power costs. In Indonesia, more than 90 per cent of the total

estimated potential is located outside Java where two-thirds of the population live.¹⁰ Similarly, in Malaysia the bulk of the potential is located in East Malaysia while the main load centres are in Peninsular Malaysia.⁹ Markets that are within reasonable transmission distance or transmission costs are usually too small to absorb the power output from these large sites. Transmission of electricity from one part of a country to another separated by large stretches of water is prohibitively costly because of the need to use high-tension, direct-current submarine cable.

Thailand is faced with a different problem in developing its hydro-power resources. A large part of its potential hydro-power resources is located on the two rivers bordering the country, namely, the Mekong and the Sulawin. Feasibility studies on harnessing hydro-power at favourable sites on the Mekong have long been carried out. However, political tensions make it unlikely that joint developments between the neighbouring countries would be realized in the foreseeable future.

It is unlikely, therefore, that the rich hydro-power resources in the ASEAN countries will be fully exploited in the immediate future. Development will continue to be based on sites which are small and near to the load centres. The prospects are more promising in the longer term. As electricity demand continues to increase and the electricity markets expand, sites that are uneconomical for development at present because of the inherent economies of scale in hydro plant construction and the long transmission distances may in time become economically viable. However, because of the cost factor, it is not envisaged that a power grid linking the ASEAN countries across large stretches of water will be feasible by the end of the century.

Geothermal Energy and Nuclear Energy. Geothermal energy is extracted from the internal heat of the earth in the form of either steam, hot water or a mixture of both. Two ASEAN countries, Indonesia and the Philippines lie on areas where geological formations lead to high temperature gradients and have substantial geothermal energy potential. The first large-scale development of geothermal energy in the region was completed in 1979 in the Philippines, and this energy source provided 15 per cent of the electricity generated in the country in 1982. Some pilot geothermal power plants have also been constructed in Indonesia. In both the Philippines and Indonesia there is potential for increased utilization of geothermal energy, especially in electricity generation. No simple statement can be made about the economics of geothermal energy, as economic assessment differs markedly from field to field.

The first nuclear power plant in ASEAN is due for completion in 1985 in the Philippines with an installed capacity of 620 megawatts (MW). The addition of this plant will raise the installed capacity of electricity generation in the Philippines by about 12 per cent. Other ASEAN countries have so far not committed themselves to the development of nuclear energy. In the energy-rich ASEAN countries, nuclear energy is an alternative that can be deferred for the time being, as there are

sufficient indigenous energy sources for exploitation. The high technology and safety requirements for nuclear power generation means that large capital costs are involved. This creates large economies of scale, and the present world trend is towards the building of nuclear stations with an electricity output of 1200 MW or more. Nuclear power from smaller plants compares unfavourably with natural gas or coal-fired power plants if cheap coal and natural gas are conveniently available. Because of the small electricity markets, not all the ASEAN countries can absorb a capacity of 1200 MW or more from one single plant. There are also siting, environmental, and waste disposal problems, particularly in highly populated Singapore. Nuclear power development has a long lead time, and the current development plans of the ASEAN countries indicate that nuclear energy is unlikely to make a major contribution to the energy needs in ASEAN, at least before the year 2000.

Non-conventional Energy Sources. Many of the non-conventional energy sources may be classified as renewable, such as solar energy, tidal, wave and wind power, various sources based on non-fossil biological material, and sources using ocean thermal gradient. To these may be added new sources of fossil fuels (such as the oil shale in Thailand), the combustible waste products of human activity, biogas and fusion power, fuel cells and the use of hydrogen as an energy carrier. Though mostly renewable, non-conventional energy alternatives will play a minor role and will not make a significant impact on the total energy consumption in ASEAN or elsewhere in the short and medium terms. However, development work creates options for these modes of energy supply in the long term.

Policy Issues in Oil Substitution

Though the market share of oil in energy use is high in ASEAN, the region is fortunate to have significant energy resources that can be utilized to replace oil. In reducing oil demand through oil substitution, there are several important policy issues that need to be considered.

The relative prices of fuels play an important role in determining the success of oil substitution. For instance, the high subsidies on petroleum products in Indonesia had discouraged the development and utilization of the alternative energy resources that it possesses. The relative prices of fuels should be such that it is financially beneficial to the consumer to make changes that the government believes to be in the national interest. They should reflect sufficiently the scarcity of some forms of energy and the potential abundance of other forms. The prices of all energy sources, therefore, need to be closely monitored to ensure the optimal substitution of other fuels for oil where supplies are available or can be developed at acceptable cost. If these other fuels are to play the important part as substitutes for petroleum, their delivered prices should be kept at as low as is commercially possible.

Many countries have experienced the extreme difficulty of achieving

changes through exhortation or even compulsion when they are contrary to the interest of the consumer. Small changes in price will usually not have large effects on fuel substitution, especially in the short term while consumers still have their existing equipment and their existing life-styles. The elasticities become greater over longer periods when equipment and life patterns have had time to change.

In addition to regulating the relative prices of fuels, there is a need for the government to provide wherever necessary the back-up facilities and incentives to the consumer to switch from oil to alternative energy sources. The switch, particularly from oil to coal, will give rise to various problems not faced by the consumer in using oil. Historically, the move away from coal had been aided not only by economic forces, but also by economic and practical benefits, such as the release of space used for coal storage and handling, the reduction of environmental pollution and labour requirements, and the improvement in working conditions in the industrial plant. All these represent obstacles to the substitution of oil back to coal.²¹ In industry, there is also the high capital costs of conversion from oil to coal. Consideration should, therefore, be given to providing support to accelerate this conversion through, for example, investment incentives, faster rate of depreciation, grants, or tax relief. It is also important to improve techniques of environmental protection, so that coal use in industry is not discouraged. In comparison, gas is a cleaner fuel and this enables it to be used directly in processes in which coal use is unacceptable or to meet stringent environment control standards. The substitution of natural gas for oil should be encouraged not only in the industrial sector, but also in the household/commercial sector. The household/commercial sector should be a priority target for the use of natural gas since coal by comparison is a less convenient fuel to use.

Adequate infrastructure to support greater coal and natural gas use can be developed but this will require the continuing attention of the government. If alternative energy sources for oil substitution are not available locally, long term plans for their import from within or outside ASEAN should be considered. Areas which require very careful and detailed study are the potential suppliers, the characteristics of the fuels (particularly coal) on offer which suit local needs, their prices and the transportation costs to move the fuels from the producing areas, and the construction of an efficient local transportation and distribution network.

It was mentioned earlier that it is very much easier to substitute non-oil sources of energy for oil in electricity generation than elsewhere in the economy, and increased electricity use opens up great opportunities for oil substitution. If the future energy strategy of the countries of ASEAN is to take the form of replacing an oil-based energy economy by an electricity-based economy, it is crucial that all consumers of energy should switch to the use of electricity as far as possible. Singapore already has a highly electrified economy; as already mentioned, nearly two-thirds of the oil consumed in Singapore is currently used for electricity generation. In heading towards an electricity-based economy, policies for promoting the use of electricity need to be considered. The authorities could make direct approaches to the consumers, especially the industrial consumers, who might be

induced to switch from using oil to using electricity. Of course, if consumers are to be persuaded to make such a switch, the cost of using electricity must be as low as is commercially possible. In those ASEAN countries where non-oil-fired electricity generating capacity is adequate to support increased use, or where new non-oil-fired capacity can be developed, there is considerable potential for promoting the substitution of electricity for oil.

One of the key issues in oil substitution in the longer term is whether there will be sufficient investment in the development of alternative energy sources so that there can be a reasonably smooth transition away from oil. Efforts should, therefore, continue to be made wherever possible to expand indigenous energy exploration, development and production. Non-conventional energy sources, except geothermal energy, will play only a minor role over the next few decades. Nevertheless, development work, especially concerning the supply of energy to the rural poor, should be continued.

It might be advantageous for the energy-deficient countries of ASEAN to shift the emphasis of their industrial strategy away from industries that are energy-intensive, particularly if they are also oil-intensive.²¹ As far as energy supply and cost factors are concerned, the energy-rich ASEAN countries where cheap gas is available are in a better position to develop the energy-intensive industries. This opens up scope for regional collaboration in industrial development. The possibility of increased trade in non-oil energy resources among the countries of ASEAN needs to be fully explored, particularly trade in natural gas and coal. Expanding natural gas trade within the ASEAN region by using pipelines offers important opportunities to reduce oil dependence in the immediate future. In some cases, however, this might pose the risk of interruptions in supply not encountered when using oil. Efforts could be made to reduce such risks through greater inter-connection of gas grids, enhanced emergency storage facilities and increased use of dual-firing capability in power stations and industry.

The social and environmental effects of increasing the supply and use of alternative forms of energy should also be considered. The extraction, transport and use of fuels, particularly coal, have many effects which may not be fully reflected in economic decisions. These include injury and health risks to workers and the public, impacts on the environment, and various economic and social effects.

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Singapore: New Population Policies for more Balanced Procreation

SAW SWEE-HOCK

Introduction

Singapore is well known for its comprehensive population control programme and its rapid fertility decline which commenced in the late 1950s.¹ Very recently, the city-state attracted world-wide attention when the government introduced new population policies with the specific aim of influencing the quality of human population.² These policies have now assumed considerable significance to the 2.6 million people in the country, viewed not only in terms of the eugenic aspect of the policies but also in the context of the fertility trends remaining below replacement level in the last ten years. Whilst the main features of below replacement fertility have been discussed in another paper,³ this paper will be devoted to an examination of the new population policies that were introduced in 1984.

The genesis of the new population policies may be traced to the traditional National Day address delivered by the Prime Minister, Mr Lee Kuan Yew, to a gathering of People's Action Party members and other specially invited guests on 14 August 1983.⁴ A large part of his speech was devoted to the differences in fertility according to the educational background of mothers, as indicated by the 1980 population census data and the findings of some researchers which showed that the intelligence of a child is determined more by nature (80 per cent) than by nurture (20 per cent).⁵ He expressed concern about the lop-sided procreation pattern in which the lesser-educated women are producing too many children while the better-educated women are having too few since this will have the adverse effect of lowering the quality of the population in the long run. He also said, "Therefore, we must further amend our policies, and try to reshape our demographic configuration so that our better-educated women will have more children to be adequately represented in the next generation". His remarks in the National Day address, normally confined to matters of national importance, provoked a great debate in the mass media about the validity of the hypotheses that the intelligence of children is inherited, that the mother's educational attainment is the principal determinant of children's intelligence, and that intelligence is dependent more on nature than nurture. Clearly, there was no general consensus on these somewhat controversial and emotional issues.

Priority School Registration Scheme

After several months of public discussion on the lop-sided procreational patterns

of Singapore women, the government announced its intention on 24 January 1984 to introduce pro-natalist incentives in the priority scheme of registering pre-primary and Primary One pupils in the 1984 registration exercise for the school year commencing in January 1985.⁶ This registration exercise was first introduced in 1972 to provide an orderly system of school admission in the face of excessive demand for Primary One places, particularly in the more popular schools. In an effort to strengthen the population control programme, the government took the opportunity to incorporate antinatalist measures which linked the parity of the child with the sterilization of parents in the 1973 registration exercise.⁷ The announcement of the pro-natalist eugenic policy in early 1984 again drew considerable public discussion mainly on the grounds that it was unfair to give children of better-educated mothers an advantage over those of lesser-educated mothers, whether or not the children's intelligence is related to the educational level of the mothers.

The priority scheme of registration and the amendments incorporating the pro-natalist policy are outlined below:

Old System	New System
Category I: Children who are citizens or permanent residents	Category I: No Change
<i>Phase 1</i> For a second child who has an elder brother or sister studying in the same school	<i>Phase 1</i> (A) For a child whose mother has at least 3 children and has an acceptable university degree or approved professional qualification. (B) For a second child whose brother or sister is studying in the school of his choice. <i>OR</i> For a child whose mother has only 2 children and has an acceptable university degree or an approved professional qualification. <i>OR</i> For a child whose mother or father has been sterilized before 24 January 1984 after the birth

Old System	New System
	of the first child and whose mother has an acceptable university degree or an approved professional qualification.
	OR
	For a child whose mother has been medically certified to be unable to produce any more children and has an acceptable university degree or an approved professional qualification.
<i>Phase 2</i>	<i>Phase 2</i>
(A) For a child one of whose parents has been sterilized after the birth of the first or second child.	(A) For a child one of whose parents has been sterilized after the birth of the first or second child and neither parent has any 'O' level passes.
OR	OR
For a first or second child one of whose parents received his/her education in the same school or is a member of the school advisory or management committee or a staff.	For a child one of whose parents has been sterilized before 24 January 1984 after the birth of the first or the second child.
OR	OR
For a second child whose elder brother or sister received his/her education in the same school.	For a child from a three-child family, one of whose parents has at least one 'A' level pass or the equivalent.
	OR
	For a first or second child who has a parent or sibling directly connected with the school.
(B) For a first or second child one of whose parents is directly connected with the school.	(B) For a child from a two-child or three-child family one of whose parents has at least three 'O' level passes or the equivalent.

Old System	New System
(C) For a child who is from a one-child or two-child family.	(C) No change.
OR For a second child whose elder brother or sister is studying in an affiliated school.	
(D) For a child one of whose parents has been sterilized before the age of 40 and after the birth of the third or subsequent child.	(D) No change.
<i>Phase 3</i> For a child who is either not eligible for, or not successful in Phase 1 and/or Phase 2.	<i>Phase 3</i> No change.
Category II: Children who are neither citizens nor permanent residents.	Category II: No Change.
<i>Phase 4</i> (A) For a child whose parents are citizens or permanent residents.	<i>Phase 4</i> (A) For a child with at least one parent who is a citizen or permanent resident.
(B) For a child whose parents are neither citizens nor permanent residents.	(B) No change.

The incorporation of pro-natalist incentives in the priority school registration scheme has increased the number of stages for the various groups to register, and consequently the registration exercise in 1984 commenced much earlier on 2 May. A total of 157 children of graduate mothers were given priority under the new scheme and the vast majority of the 40,000 or so children were still registered according to their schools of choice.⁸ Apart from the small number of children of graduate mothers benefiting from the pro-natalist policy, a great deal of unhappiness and resentment seemed to have been generated among both the better-educated and the lesser-educated. This was reflected by the public response expressed in the letters to the press, the speeches made in the December 1984 general election campaigns, and the results of the election itself. In fact, the new

Minister of Education, Dr Tony Tan, informed the Schools Council meeting held on 2 February 1985 that his Ministry had started to review the pro-natalist policy incorporated in the registration exercise.⁹

By 25 March 1985, the Minister was able to make a more definite statement in Parliament to the effect that his Ministry intended to discontinue with the graduate mother scheme. He said, "The crucial issue is whether graduate mothers will be induced to have more children simply because this will give them priority in registering their children for Primary One or pre-primary. The response from graduate mothers would indicate that this premise is unlikely to be true. In view of the animosity and resentment which the priority scheme has aroused in Singaporeans, both graduate and non-graduate, and as the scheme is not likely in my view to produce the desired results, I see no good reason for continuing with the scheme."¹⁰ Finally, he announced in a subsequent meeting of Parliament held on 14 May 1985 that the Government had decided to discontinue the graduate mother priority scheme and to revert to the 1982 registration guidelines. At the same time he also assured the House that the previous commitment would be upheld and children born between 24 September 1984 and 14 March 1986 to graduate mothers who had acted to take advantage of the policy would continue to enjoy the priority scheme.¹¹ The revised registration scheme was put into effect on 15 July 1985 when the Primary One and pre-primary registration for the 1986 school year commenced.

Enhanced Child Relief Scheme

The second pro-natalist policy was announced in the 1984 Budget Statement delivered by Dr Tony Tan, Minister of Finance, in Parliament on 2 March 1984.¹² Incentives designed to encourage the better-educated to produce more children were built into the existing enhanced child relief for specially qualified women in their income tax return, which was originally intended to induce these women to work. Under the existing rule, the specially qualified women are entitled to claim an additional 5 per cent of their annual earned income for each of the first three eligible children, apart from the normal child relief of \$750 for the first two children and \$500 for the third child which all working women can claim. Under the new rule, the normal child relief remains unchanged but the additional relief for specially educated women was increased to 5 per cent of their earned income for the first child, 10 per cent for the second child, and 15 per cent for the third child, with, however, S\$10,000 as the maximum limit that they can claim for each child. In addition to the increased amount of relief for each child, the eligibility for the increased child relief was extended from the original group of specially qualified women to all women with five passes at the Ordinary Level in the General Certificate of Education (GCE).

In proposing the above liberalization of the enhanced child relief scheme, the Minister of Finance concluded "that a somewhat more liberal scheme can be justified not only to induce our better-educated married women to continue to

work but, more important, to encourage them, hopefully, to have a second, if not a third child. This will go a little way towards correcting the present lop-sided pattern of procreation in Singapore which is a cause for concern". The new scheme for enhanced child relief will take effect for the income earned by these women in 1984 and filed in the Year of Assessment 1985. The liberalized scheme will undoubtedly serve to reinforce the original aim of the enhanced child relief scheme in persuading married women to enter, re-enter or remain in the labour force in the context of a tight labour market in Singapore. It is very unlikely that this measure will be able to induce a significant number of the better-educated working women to produce more children because of the very conflicting demands on the time and effort of the women at home and at work. It was recognized that other factors such as the availability of good domestic servants and convenient childcare centres may play a more effective role in deciding whether the better-educated working mothers will produce more children.

Sterilization Cash Incentive Scheme

Having implemented two incentive measures for the better-educated to have more children, the government announced on 2 June 1984 the introduction of an antinatalist eugenic policy with the sole purpose of discouraging the poor and lesser-educated parents from having many children.¹³ This antinatalist measure takes the form of a S\$10,000 cash grant which is provided under the following conditions:

1. The mother must be under 30 years and be sterilized or ligated after the first child;
2. Neither of the parents should have any GCE Ordinary Level passes ('O' level passes);
3. The combined monthly family income must not exceed \$1,500;
4. Both parents must be Singapore citizens or permanent residents;
5. Should the mother produce another child, she must repay the \$10,000 plus 10 per cent compound interest a year.

An additional condition was subsequently imposed by the National Registration Office, the government department responsible for implementing the scheme: that is, neither the wife nor the husband must be earning more than \$750.¹⁴ It was also clarified that those women who had been sterilized or ligated before 1 June 1984 would not be eligible for the cash grant.¹⁵ Under the scheme, the government will pay the S\$10,000 cash grant into the member's Central Provident Fund (CPF) account, and if she does not have one, an account will be opened for her regardless of whether she has worked before. The money deposited in her account will earn the usual CPF interest of about 6.5 per cent, and she will be allowed to withdraw the S\$10,000 plus the earned interest when she attains the age of 55 years.

As an alternative, the woman is given the option to use the cash grant to purchase a Housing and Development Board (HDB) apartment. In this case, the following conditions will apply:

1. The apartment must be registered in the wife's name;
2. Should the husband's CPF savings be used also, the apartment can be in their joint names;
3. Should the couple be divorced, the wife retains the apartment provided she meets the HDB's home ownership criteria, but she is required to repay into her ex-husband's account whatever he contributed. If she does not have the cash, the HDB will loan it to her and she will be given time to repay the loan.

The S\$10,000 is about one-third the current price of a three-room HDB apartment and it will more than cover the 20 per cent down-payment needed to purchase such a property. This alternative utilization of the cash grant is meant to give the young, low-income families an opportunity to own an apartment which they would otherwise be unable to do.

The overall aim of the cash grant, the first of any kind to be offered by the government as part of the national population control programme, is meant to discourage the low-income and poorly-educated parents who are starting their families from having more than two children. The statement from the Prime Minister's Office stated, "Unless we break this low education, large family cycle, we will have a small but significant minority of our people permanently trapped in a poverty sub-culture, whilst the rest of the population will move even further up to the economic and social ladder". It was estimated that some 35,000 married women may be eligible for this cash grant which seems to constitute an attractive scheme, particularly to those parents who wish to purchase an apartment. Some eight months later, a total of 57 couples submitted their applications to the National Registration Department to take advantage of the scheme, and out of these only 47 met all the requirements and the wives had been sterilized.¹⁶ There is no doubt that this antinatalist policy in respect of sterilization will exert a greater impact than the two pro-natalist policies on the future course of fertility in Singapore.

Government Hospital Accouchement Fees

In the same statement announcing the above scheme on 2 June 1984, the government also gave advance notice of a further tightening of the existing antinatalist policy in respect of accouchement fees in government hospitals.¹⁷ On 7 February 1985, the Ministry of Health confirmed the policy and gave the detailed changes in a press statement.¹⁸ With effect from 1 March 1985, the accouchement fees for the four ward classes were to be increased for the third and subsequent order of birth, with the fees for the first two children remaining the same. The changes are laid out in Table 1.

For Class C wards catering mainly to the poorer and lesser-educated population, the accouchement fees will be raised from \$300 to \$400 for the third child, from \$500 to \$600 for the fourth child, and from \$600 to \$1,000 for the fifth and subsequent children. In sharp contrast, the accouchement fees in Class A wards patronized mainly by the richer and probably better-educated population

stayed at the old level for the third and the fourth children, and were only raised, even so by a smaller quantum, from \$850 to \$1,000 for the fifth and subsequent children. Similarly, in Class B1 wards, the accouchement fees remained unaltered for the third and the fourth children, and were raised from \$700 to \$1,000 for the fifth and subsequent children. However, in Class B2 wards the increase applied to all higher parities, from \$350 to \$400 for the third child, from \$550 to \$600 for the fourth child, and from \$650 to \$1,000 for the fifth and subsequent children.

TABLE 1
CHANGES IN ACCOUCHEMENT FEES IN GOVERNMENT HOSPITALS WITH EFFECT
FROM 1 MARCH 1985

	<i>British Order</i>	<i>Class A</i>	<i>Class B1</i>	<i>Class B2</i>	<i>Class C</i>
1st child	No Change	\$ 350	\$ 200	\$ 150	\$ 100
2nd child	No Change	\$ 400	\$ 250	\$ 200	\$ 150
3rd child	Old	\$ 550	\$ 400	\$ 350	\$ 300
	New	Same	Same	\$ 400	\$ 400
4th child	Old	\$ 750	\$ 600	\$ 550	\$ 500
	New	Same	Same	\$ 600	\$ 600
5th or subsequent child	Old	\$ 850	\$ 700	\$ 650	\$ 600
	New	\$1,000	\$1,000	\$1,000	\$1,000

The outcome of the above changes is that for the fifth and subsequent children the mothers in all the four classes pay the same accouchement fees of S\$1,000 compared with the old system in which the mothers pay only S\$600 for Class C, S\$650 for Class B2, and S\$700 for Class B1. For the fourth child, the changes resulted in fees of S\$600 for Class C, Class B2 and Class B1, and S\$750 for Class A. Similarly, for the third child, the accouchment fees are now the same (S\$400) for the three lower classes and slightly higher for Class A (S\$550). This is different from the old system which charged lower fees for the lower classes. It seems clear that the underlying aim of the new accouchement fees is to modify the original antinatalist policy designed to discourage high parity births from all strata of the society into one that imposes a relatively greater financial penalty on the poorer, and presumably lower-educated, segment of the population for delivering their higher parity babies in government hospitals.

Concluding Remarks

The year 1984 ushered in a new phase in the demographic history of Singapore when for the first time the qualitative aspect of the population was taken into con-

sideration in the modification of the national population control programme. It is somewhat difficult to predict at the initial stage whether the new measures will ultimately yield the desired results since the impact of these measures on the reproductive behaviour of the women will take some years to show. We can only venture to say that the one remaining pro-natalist measure designed to encourage the better-educated mothers to produce more children will probably have limited effect, while the two antinatalist measures meant to deter the lesser-educated mothers from having more children will have a greater impact. This is because all the existing variables that favour a small family size will undoubtedly continue to operate in the years ahead.

From the quantitative point of view, it is likely that on balance the four measures will lead to less births rather than more births, and this should be viewed in the context of the last ten years when below replacement fertility was recorded. The new population policies may tend to prolong the fertility trend well below the replacement level in the near future, which is not consistent with the stated demographic goal of maintaining fertility at the replacement level in order to stabilize the population in the distant future.¹⁹ A simulation exercise based on fertility moving back to the replacement level of 1.025 in 1990 and remaining at this level indefinitely reveals that the Singapore population will stabilize at 3.6 million in 2032. If fertility were to remain below the replacement level at say 0.841, the population is expected to grow only until 2020 when it will peak at 3.2 million, after which it will decline continuously.²⁰ The actual position is, in fact, more serious than this since fertility has fallen further from 0.841 in 1980 to 0.772 in 1984.²¹ Singapore has now entered the initial phase of a process that will eventually lead to a declining population in the future, and it is time to review and remove the antinatalist measures in stages in order to permit fertility to move back to the replacement level of 1.025 in the not too distant future so as to stabilize the population in the twenty-first century.

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2. See, for example, *Asian Wall Street Journal*, 25 January 1984; *Asiaweek*, 2 March 1984; *Asiaweek*, 22 June 1984.
3. Saw Swee-Hock, "A Decade of Below Replacement Fertility in Singapore" (forthcoming).
4. The full text of Mr Lee Kuan Yew's address was published in the *Straits Times*, 15 August 1983. The relevant portion of this text has also been published in *Population and Development Review* 9, no. 4 (December 1983) under the heading of "Quality Considerations in Population Policy".
5. One of the researchers specifically mentioned by Lee Kuan Yew in his speech was Professor Thomas Bourchard of the University of Minnesota who has been using twins to study the influence of nature and nurture on intelligence.
6. *Straits Times*, 24 January 1984.

7. A detailed discussion of the development of this priority registration scheme is given in Saw Swee-Hock, *Population Control for Zero Growth in Singapore* (New York: Oxford University Press, 1980).
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Energy Usage in Burmese Agriculture: A Case Study

TIN MAUNG MAUNG THAN

Introduction

The early development of the industrialized nations was based on cheap and abundant sources of energy and it is apparent that energy in various forms is essential for socio-economic development in general, and industrialization in particular. Although unidirectional causal linkage between GNP (gross national product) and energy consumption has not been satisfactorily demonstrated,¹ the strong statistical relationship between these two variables has led to the emergence of the per capita consumption of commercial energy as an alternative measure of development comparable with the traditional indicator, namely, per capita GNP.² However, for aspiring nations of the Third World searching for a formula to attain the elusive goal of development, the present world energy situation remains unfavourable and one cannot expect to utilize energy liberally as a free catalyst for "take-off" and sustained growth.

Food Production and Energy Intensiveness

Food as a source of nourishment is indispensable to all living things and the energy realized from food *vis-à-vis* that which has to be expended in collecting or producing it might have played a not unimportant part in the evolution of many species on this planet. The source of natural food production in our ecosystem can be traced back to the sun which bathes the inner planets with (on the average) a steady stream of solar radiation which in turn provides the primary energy for the photosynthetic process — the crucial first step in the complex food chains of the flora and fauna inhabiting the earth.

This energy provided by the sun and usually measured in terms of annual solar insolation is assumed to be a free input as far as energy accounting is concerned, whereas the methods that man has developed through the ages for obtaining food involve in one form or another some additional energy outlay or in other words an energy subsidy, as a price. With the march of civilization, as man evolved through the various phases of hunting and gathering, nomadic husbandry, shifting agriculture and finally seasonal intensive agriculture, the traditional source of energy subsidy for food production has also changed from muscle power to animal power and then to modern fuel-intensive mechanized technology. Especially with the advent of organized agriculture as a system of staple food production, man's intervention in the natural photo-synthetic process entails substantial amounts of

associated energy expenditure which has increased spectacularly during the course of this century.

It has been shown that systems with the least energy inputs are those that require the most extensive use of land and are the least productive either in terms of food output per unit area utilized or food production per worker.³ Given the pressures of population, labour and land constraints as well as the desire to fulfil the basic needs of the populace it seems that the only course open to self-sufficiency in food for the developing countries of the Third World is to try and emulate the energy-intensive production systems of the Industrialized World with its apparent merits in the form of substantially increased yields per unit area or worker. On the other hand, to some development planners, agricultural economists and ecologists specializing in Third World food production, the hypothesis that this formula with its diverse ramifications — such as potential ecological imbalances, the high cost and limited availability of capital equipment, commercial fuels, fertilizers, pesticides and herbicides, the problems of sustaining a technological base for the maintenance and operation of modern equipment, and infrastructure requirements for transportation, marketing, financial and technical services — is “the only way” towards self-sufficiency in food production seems questionable. As a consequence, the question “whether it is prudent to accept this hypothesis without any qualification and put all the eggs in the energy intensive basket” arises. In all probability one cannot find a general answer which is applicable to the developing nations as a group. Nevertheless, in individual cases it would be advisable to consider the problem of food production not as a closed system confined only to its sector but as an open system in the national economy and to put the energy intensiveness of a particular mode of production in its proper perspective, that is, in the context of national energy supply and demand.⁴

Energy Subsidy in Agriculture

Of all modern strategies of food production, agriculture as a means of producing food crops can perhaps be deemed the most important because of its ubiquity and almost universal impact as a major source of nutrition. Although some might argue that there are other vastly superior production processes (although some of them such as single-cell proteins and other exotic sources are yet to be proved on a commercial scale), it should be remembered that for a large proportion of the human race agricultural crops are the major and sometimes the only source of metabolisable energy. Although in the opening decades of the twentieth century rapid industrialization had sometimes been pursued at the expense of agriculture it has now been given greater emphasis due to recent thinking on development. The support of broadly-based agricultural progress in the quest for higher national productivity and growth has been appreciated by the new breed of Third-World economists and planners and the role of agriculture in the national economy has been enhanced by these trends.⁵ In this context, one could say that the concept of energy subsidy in agricultural systems plays a most important part in the under-

standing of energy flows in the modern food production system in particular, and in the national economy in general.

Energy subsidy in agricultural production may be defined as the sum of the energy equivalents of all the activities (each having a definite energy content) constituting the network inputs to the agricultural system.⁶ In agriculture, three forms of energy inputs can be identified: a) solar radiation; b) inputs from the biosphere; and c) inputs associated with human intervention. Of these, the first is a free input and is not counted as a subsidy. Similarly, inputs in the second category are also omitted in energy accounting. Of the third group, human labour as mechanical power and the energy required for the basic needs (life support) of the agricultural worker and his family are major sources of confusion and error in macro-level computations. They depend greatly on the standard of living and the level of mechanisation in the farm and only after the nature of the particular system under study has been exposed and an overall picture has been formed can one view them in a proper perspective. The same line of argument also holds true for animal power utilized in the cultivation of food crops. The other components of this third form of energy inputs can be classified as direct energy subsidies and may constitute seeds, pesticides and herbicides, irrigation, nutrients, machinery, transportation, processing and packaging, marketing, and so forth. Here also, problems of definition and accounting exist as regards capital inputs and those inputs shared with other sectors; for example, irrigation, agricultural machinery, transportation, packaging and marketing infrastructures. It is also extremely difficult to resolve the quantification problem associated with technical and extension services which are part and parcel of the agricultural bureaucracy. It is, however, fortunate that in a developing economy such problems are less intricate and intractable than those in an industrialized society. Under these complex circumstances, the practical rule-of-thumb has been to take into account all direct energy subsidies while amortizing capital equipment for its theoretical life and to follow the network flows into other sectors wherever possible with the qualification that a consistent set of definitions and inter-sectoral cut-off points be established beforehand.

In literature, it is customary to quantify energy subsidies in agricultural production in terms of total energy equivalent of network inputs or ENI (usually in kcal) per unit mass of produce (usually lb. or kg. of crop) and to express the energy intensity (EI) of an agriculture system as total ENI per year per unit area of land (usually ha.) utilized in the production process. The range of energy subsidy values for even a single crop can be quite large depending on the nature of the corresponding production system as well as on climatic and soil conditions, and for rice they may vary from almost 300 kcal/kg (Taiwan, 1964) to 3300 kcal/kg (acid soil). Typical values of energy intensity for rice range from about 150 Mcal/ha yr (average, Burma 1964) to 8800 Mcal/ha yr (intensive system).⁷

Another significant parameter is the energy ratio (ER) — a thermodynamic measure of efficiency advocated by the pioneers of *Energy Analysis*.⁸ Generally defined as the ratio of the energy output of a system to the sum of energy inputs,⁹

the energy ratio in agriculture can be expressed as the ratio of metabolisable energy content of the product to the sum total of ENI utilized in the course of its production. In other words, it is the ratio of metabolisable energy content of the yield to the energy intensity. Some authors have used the term "energy subsidy" to describe the ratio of energy input to output¹⁰ (actually the inverse of energy ratio) but this is a rare exception to the rule. Table 1 illustrates the energy ratio of some agricultural crops though one should bear in mind that those derived from different sources are probably not strictly comparable because of different approaches used in their derivation. It is interesting to note that although the rule seems to be that intensive agriculture lowers the energy ratio, there are exceptions in some forms of cultivation involving animal power as exemplified by the cases of wheat (oxen, India) and rice (buffalo, Philippines) in Table 1. This is probably due to unfavourable soil and climatic conditions contributing to marginal yields which cannot be compensated by the increased energy subsidies provided by draught animals.

TABLE 1
TYPICAL ENERGY RATIO FOR SOME CROPS

<i>System, products</i>	<i>Energy Ratio</i>
Sweet potato	18
Traditional, rice (developing nations)	10-36
Animal (buffalo), rice (Philippines)	3.4
Transitional, potato	3.8*-7.5
Intensive, rice (USA)	1.3
Traditional, potato	14
Intensive, potato	2-6.3
Oats	7
Mechanized, maize grain (USA, 1945)	3-3.7
Intensive, maize grain (USA, 1970)	2.8
Intensive, maize grain (USA, 1975)	2.4
Animal (oxen), corn (Mexico)	3.3
Hand labour, corn (Mexico)	10
Winter wheat with fertilizer (UK, 1974/75)	2.4
Winter wheat without fertilizer (UK, 1974/75)	2.1
Animal (oxen), wheat (India)	0.95
Hand labour, cassava (Congo)	37.5
Hand labour, sorghum (Sudan)	14.1

* Derived from yield intensity (kg protein/ha yr) and energy intensity (kcal/ha yr) values given in M. Slessor, op. cit., Table 3.

SOURCE: Compiled from data obtained from references cited.

The Case Study

The focal point of the case study is the Special High-yield Variety Paddy Production Demonstration Project that was successfully completed in 1975 at Pha-lon Village¹¹ by the State's Agriculture Corporation (Rangoon Division) with the co-ordination and close support of the local Party Unit, People's Council, and Peasants' Council.

The methodology employed was simply one of totalling, for the whole project, the additional ENI resulting from the introduction of the special HYV (high yield varieties) paddy and relating it to the metabolisable energy content of the incremental rice yield (attributed to the HYV and associated inputs). In other words, the differential sum of ENI was compared with the differential increase in energy output and the ratio of the two differentials ($\Delta E_{out}/\Delta E_{in}$) was also determined. The data on the energy content of the additional direct inputs were taken from the literature.¹² The incremental energy output due to the differential increase in yield was computed by finding the rice equivalent of the differential paddy output (conversion factor = 0.65) and determining its calorific value from nutritional data.¹³ Transport energy and energy consumed in milling were omitted because of lack of reliable data, the system being confined to its physical boundaries. The energy value of seeds and cattle manure (the traditional fertilizer) was also not included as it was assumed to be part of the traditional cycle. The additional energy expenditure in human labour in the form of transplanting, uprooting and weeding was estimated via a conservative estimate of energy consumed per man-day based on the average data for Burmese farmers¹⁴ and the "residual after subtracting maintenance energy cost" method described by V. Smil in his paper on energy flows in the developing world.¹⁵ All the relevant energy values employed as a basis for calculations are listed in Table 2.

TABLE 2
ENERGY NETWORK INPUTS AND OUTPUT

<i>Input (Output)</i>	<i>Unit</i>	<i>ENI or E_{out} (this work) (kcal)</i>	<i>Range (other works) (kcal)</i>
Urea	1 lb	3,700	up to 4,200
Super-phosphate	1 lb	2,200	
Potash	1 lb	530	970
Pesticides	1 lb	11,000	—
Human labour	man-day	750	—
(Rice)	1 kg	3,500	3,000–3,600

SOURCE: Compiled from data obtained from references cited.

As there has been some confusion arising from different assumptions by various authors in estimating the ENI for food production, the assumptions and concepts used in this study are described briefly in the following sections.

As far as farm work is concerned the concept of useful energy as defined by Makhijani and Poole¹⁶ has been applied. The energy input for human and animal labour has been assumed to be equivalent to the energy expended in performing particular tasks in the course of rice production. Based on physiological data for Burmese agricultural workers,¹⁷ an average expenditure of 3,000 kcal/man-day was assumed together with a basal metabolic rate of 1,500 kcal/man-day.

For chemical fertilizers, the amount of useful energy was taken as equal to that required for its production. This measure has also been open to criticism because the relevant parameter should have been "the energy associated with the increase in plant weight due to use of a unit of fertilizer which enables the more efficient capture of solar energy".¹⁸ The same line of argument applies to the energy value of pesticides employed.

Apparently, it is desirable to obtain absolute results on energy subsidies and the corresponding energy ratio in absolute terms instead of incremental values. Unfortunately, directly applicable data on inputs other than those necessitated by the introduction of special HYV species were not available in this case, and hence direct computation of total ENI for the production as a whole could not be performed. However, the possibility of deriving the desired values indirectly by identifying these "normal" or "other" inputs and estimating their energy equivalents from secondary "macro" data was explored and utilized.

In this approach, the national average of the energy intensity for rice production in that year (1975) was estimated by employing national aggregates and ENI values taken from literature.¹⁹ The resulting EI value was applied to the Pha-lon system as the upper limit of EI for normal input that would have been applied in the absence of the HYV species. The EI value of 156 Mcal/ha yr given by Slessor in his paper²⁰ was used as the lower limit in this case. A rounded value intermediate between these two limits (220 Mcal/ha) was taken as representing the normal inputs and their energy equivalent was derived by multiplying this representative EI value with the cultivated area (140.91 ha.).

In attempting to estimate this representative EI value for the traditional component through the ENI of "normal" inputs from national aggregates, the determination of useful energy associated with draught-animal work is extremely difficult as the underlying data are less comprehensive than those for human workers. The average annual useful work performed by draught animals is a function of body weight, work speed, number of working hours per season and soil conditions in the field. In utilizing an aggregate figure for the national stock of draught animals, the proportion actually representing those employed in rice farming must also be ascertained. A deflator equal to 0.75 was used (after Makhijani and Poole) for that purpose. The sum of all energy inputs to the Pha-lon system was then obtained by adding these values for the normal (or traditional) inputs to those of the supplementary (or modern) inputs that were necessary for the introduction of

the special HYV paddy species. The assumed values of the ENI and other relevant parameters used in this approach are summarized in Table 3. It should be noted that for the year concerned, the total area devoted to HYV rice and the level of mechanization was quite low, there being only about 300 tractors per million ha of crop-land. (Only those tractors belonging to the State's Agriculture Mechanization Department were enumerated because reliable data on the status of tractors owned by the Co-operative were not available).

TABLE 3
PARAMETERS USED IN THE ESTIMATION OF ENI AND EI FOR NORMAL INPUTS

<i>Input</i>	<i>Unit</i>	<i>Value (this work)</i>	<i>Range (other work)</i>
Human Labour	man.yr	75,000 kcal	70,000 to 124,000 kcal
Avg. power (cattle)	1	0.3 hp	0.25 to 0.75 hp
Avg. work-hr per season (cattle)	1	800 hr	2 to 8 hr/day 100-300 days
Avg. power* (tractor)	1	50 hp	—
Avg. work done (tractor)	hp.hr	4,000 kcal	10-20 gals. of fuel per acre
Avg. fertilizer** (N?P?K?)	1b	2,900 kcal	—
Avg. seed	kg/ha	50 kg	> 100 kg

* Only for tractors of the Agriculture Mechanization Dept.

** The ratios for N,P,K fertilizers were taken from the Pha-lon data.

SOURCE: Compiled from data obtained from references cited.

Results

The results obtained from the supplementary inputs and the incremental output of the Pha-lon system are summarized in Table 4. The ratio $\Delta E_{out}/\Delta E_{in}$ which might

TABLE 4
DIFFERENTIAL VALUES OF ENERGY INPUTS AND
OUTPUT IN THE PHA-LON SYSTEM

<i>Type</i>	<i>Value</i>
Supplementary inputs	274.75 Mkcal
Incremental output	986.45 Mkcal
Differential energy ratio	3.6

be called the marginal return from the investment of HYV species was also listed. Among the energy equivalents of the various supplementary inputs, the fertilizer portion was found to be the highest (over 99 per cent) followed by pesticides which have the same order of magnitude to that of the extra human effort needed for transplanting, uprooting and weeding.

The results of the indirect approach (via macro-data) in estimating the absolute values of the total energy subsidy in the Pha-lon system (including both normal and supplementary inputs) and the total energy output in terms of the nutritional content of the total rice production are presented in Table 5. These values could be compared with the values obtained for commercial energy requirements of rice production in the Philippines and the United States as shown in Table 6 (modified from Table 17 of B.A. Stout et al., op. cit.). However, these results should be viewed with some qualifications as they were based on secondary or macro-data rather than on the direct values documented for the Pha-lon Demonstration Project.

TABLE 5
RESULTS OF THE INDIRECT DERIVATION OF TOTAL
INPUTS AND OUTPUT IN THE PHA-LON SYSTEM

Type	Value
Energy intensity (normal inputs)	220.0 Mcal/ha
Total inputs	305.75 Mkcal
Total outputs	1,647.69 Mkcal
Energy intensity (total system)	2,170.0 Mcal/ha
Energy ratio (ER) (total system)	5.4
Energy subsidy (total system)	650 kcal/kg rice

Energy Utilization in Burmese Agriculture

Employing the method developed in the foregoing case study of the Pha-Lon system, a generalized sectoral study of energy utilization in Burmese agriculture has been attempted by transforming macro-data on physical inputs into energy units over a period of two decades from (budget year) 1962/63 to 1982/83.

Although one could question the degree of reliability of some of these highly aggregated sectoral data,²¹ it is hoped that the overall trend revealed in such an exercise would be useful in highlighting the state of agriculture in this developing nation where more than 60 per cent of the work-force is in the agricultural

TABLE 6
COMMERCIAL ENERGY REQUIRED FOR RICE PRODUCTION BY MODERN AND
TRANSITIONAL METHODS

	<i>Modern (USA)</i>		<i>Transitional (Philippines)</i>	
	<i>Quantity/ha</i>	<i>Energy/ha (10⁶ kcal)</i>	<i>Quantity/ha</i>	<i>Energy/ha (10⁶ kcal)</i>
Inputs:				
Machinery	4.2 × 10 ⁹ joules	1.004	335 × 10 ⁶ joules	0.0801
Fuel	224.7 litres	2.148	40 litres	0.382
Nitrogen fertilizer	134.4 kg	2.57	31.5 kg	0.602
Phosphate fertilizer	—	—	—	—
Potassium fertilizer	67.2 kg	0.146	—	—
Seeds	112.0 kg	0.083	110.0 kg	0.394
Irrigation	683.4 litres	6.533	—	—
Insecticide	5.6 kg	0.134	1.5 kg	0.036
Herbicide	5.6 kg	0.134	1.0 kg	0.024
Drying	4.6 × 10 ⁹ joules	1.099	—	—
Electricity	3.2 × 10 ⁹ joules	0.765	—	—
Transport	724 × 10 ⁶ joules	0.173	31 × 10 ⁶ joules	0.007
TOTAL		15.509		1.525
Yield (kg/ha)	5800		2700	
Energy subsidy (kcal/kg)	2674		565	

SOURCE: B.A. Stout et al., op. cit., Table 17.

sector which accounts for nearly 55 per cent of the value-added in production.²² The results, which are illustrated in Table 7, depict a rapid increase in commercial energy outlays as the system evolved from the “traditional” to what could be termed “transitional” with the government playing a decisive role in promoting the “modern scientific method” of intensive cultivation employing subsidized chemical fertilizers and HYV species — especially since 1975 when the government launched a nation-wide productivity drive with the “special HYV campaigns” for cereals and cash crops.²³

Table 8, which depicts the rising trend in the energy intensiveness together with the concomitant increase in productivity of the major cereals²⁴ apparently confirms the fact that the productivity of chemical fertilizer is very high in the initial stages of application although its absolute volume is small.²⁵ In fact, it was only after the launching of the Second Four-Year Plan (1974/75–1977/78) in which the Special HYV Programmes for Whole Townships were introduced — especially during the Third Four-Year Plan period starting from fiscal 1978/79, when a concerted effort was made to mobilize the class and mass organizations under the leadership of the Burma Socialist Programme Party in support of the productivity drive — that a significant growth in cereal productivity was achieved.²⁶

TABLE 7
ENERGY UTILIZATION IN BURMESE AGRICULTURE (1962-82)

Budget Year	1962/63	1966/67	1970/71	1974/75	1978/79	1982/83
Total area sown (10 ⁶ ha)	8.38	8.65	9.04	9.5	9.87	9.9
Commercial ENI (10 ⁹ kcal)						
a Pesticides	8.4	5.0	7.2	20.8	12.0	19.3
b N.P.K. fertilizers	0.7	71.0	327.2	778.9	1,426.8	2,433.8
c Ammonium Sulphate & Phosphate	56.5	38.0	—	—	—	—
d Tractor fuel	56.9	171.4	187.1	223.9	331.6	488.4
e Pump irrigation	19.5	24.4	28.3	82.1	97.6	133.7
(Total commercial ENI)	(142.0)	(309.9)	(549.8)	(1,105.7)	(1,868.0)	(3,075.2)
Traditional ENI (10 ⁹ kcal)						
f Human labour	338.9	427.1	463.7	492.3	528.7	570.6
g Animal power	484.2	547.2	622.5	638.3	683.4	780.0
h Manure	752.7	803.4	861.9	893.1	935.0	990.6
i Seeds	865.9	911.2	867.2	1,110.4	1,215.3	1,482.8
(Total traditional ENI)	(2,491.7)	(2,688.9)	(2,815.3)	(3,134.1)	(3,362.4)	(3,824.0)
Total energy input (10 ⁹ kcal)	2,633.7	2,998.8	3,365.1	4,239.8	5,230.4	6,899.2

a Energy content of pesticides taken as 11,000 kcal/lb (Slessor, op. cit.) with active chemical content of 1 kg/gal.

b Sum for Urea, T-Super Phosphate and Potash; energy values from Table 2.

c Energy incorporated in Ammonium Sulphate taken as 1,506 kcal/lb (Slessor, op. cit.); for Ammonium Phosphate computed as 1,200 kcal/lb based on MAP formula.

d Computed from field hours of tractor use; for parameters, see Table 3.

e Based on total area under pump irrigation; average energy input being 3×10^6 BTU/ha (Makhijani and Poole, op. cit.).

f Inferred from sectoral manpower data with a deflator of 0.85; parameters from Table 3.

g Computed from the national stock of draught animals trained for agricultural purposes.

h Energy content of manure taken as the sum of the values of its organic fertilizer constituents; this value of 39,000 kcal/kg (fresh) is derived from Table 3 (p. 90) of G.C. Aggarwal & N.T. Singh, "Energy and economic returns from cattle dung as manure and fuel", *Energy* 9, no. 1 (1984): 87-90.

i Seed intensity: rice 50 kg/ha (1962-63 to 1970/71), 60 (1974/75), 65 (1978/79), and 85 (1982/83); wheat 65 kg/ha; maize 10 kg/ha. (Computation for 3 major cereals only.)

SOURCES: Sectoral aggregate data from various issues of the "Report to the People" and the "Report to the Pyithu-Hluttaw" published by the Ministry of Planning and Finance, Government of Burma; and Burma Socialist Programme Party, "Economic Affairs", No. 4 (1969): 76-77.

On the other hand, in the context of energy analysis it would be most interesting if an estimate for the energy ratios (ER) of the system for the years under study could be derived. Unfortunately, the sectoral macro-data available are not suitable for such an exercise. However, in order to estimate the magnitude of this ratio, the nutritional energies embodied in the three major cereals as well as pulses and groundnut were estimated from overall production figures for the base

TABLE 8
ENERGY INTENSIVENESS AND PRODUCTIVITY OF MAJOR CEREALS IN BURMESE AGRICULTURE

Budget Year	1962/63	1966/67	1970/71	1974/75	1978/79	1982/83
Energy intensity (Mcal/ha)	314.3	346.7	372.2	446.3	529.9	696.9
Ratio of commercial ENI to total ENI (percentage)	5.4	10.3	16.3	26.1	35.7	44.6
^a Relative productivity of major cereals (Index; base year = 100)						
Paddy	100	89.2	103.1	106.7	127.6	191.3
Wheat	100	89.2	111.8	133.4	90.2	226.2
Maize	100	118.9	134.2	155.9	175.3	334.3

^aBased on yield/acre taking 1962/63 as the base year.

SOURCES: Various issues of the "Report to the People" and "Report to the Pyithu-Hluttaw" published by the Ministry of Planning and Finance, Government of Burma.

year and for 1982/83²⁷ and their sum totals taken as lower limits for E_{out} , representing the physical outputs as a whole. The respective E_{in} values representing the overall energy equivalent of physical inputs (the last row of Table 7) were then used as numerators to obtain respective ERs of 7.3 for the base year (1962/63) and 5.2 for the year 1982/83. When compared with the range of values which are typical of "semi-industrial systems" in tropical crop production²⁸ these ER values obtained for Burma seem to fall within the observed spectrum, that is, ranging from 5 to 10. The fall in the ER over the two decades also confirms the conventional wisdom in energy analysis that increased productivity from land or labour could only be realized at the expense of additional commercial energy inputs which diminish the returns on investment though there may be net gains in nutritional energy brought about by the rise in output.

Conclusion

The case study of the Pha-lon system showed that in purely energy terms the increase in output more than compensated for the supplementary inputs utilized to achieve such a gain in productivity, although the energy ratio of total output *vis-à-vis* total input, that is, the ER value, probably fell to about one-third the traditional figure.²⁹ The energy subsidy value of 650 kcal per kg of rice output when taken at face value (there has been some uncertainty in determining the value for the energy equivalent of total inputs from which it was derived; see, explanation on indirect derivation of normal inputs, pp. 107 above) reflected the corres-

ponding ER value and if one takes the nutritional energy content of rice as fixed it can be compared with those of other rice production systems which range from 300 to more than 700 kcal/kg in the context of efficacy of production in energy terms (see M. Slessor, "Energy Subsidy", Table 3).

The major aim of the sectoral exercise has been to delineate the energy equivalent of network inputs in Burmese agriculture. The ER values derived for 1962/63 and 1982/83 should, therefore, not be taken as unequivocally representing the system *in toto* as the computation for E_{out} excluded industrial and cash crops (such as jute, cotton, sugar-cane, tobacco, sesame, potato, onions, etc.) which constituted some 32 per cent (1962/63) to 42 per cent (1982/83) of the total area under cultivation and whose share of the physical inputs in the sector had been included in the sums for E_{in} (since they cannot be disaggregated from the sectoral data). Nevertheless, this shortcoming resulting in the underestimation of the corresponding ER values did not detract from the observations, the argument being that the productivity gains over the two decades had been fuelled by substantial increases in commercial energy inputs which could become a limiting factor in itself as the rising trend increasingly taxes the resources of the state, the principal supplier — a state of affairs brought about by its predominant role in the socio-economic system of the nation.

This, however, should not deter the ongoing Burmese effort to realize further gains in yield for a variety of food and industrial crops by intensifying the "modern scientific" inputs in the agricultural sector. Yet, one should also bear in mind that the continued increase of commercial energy inputs does not necessarily entail an assured increase in productivity indefinitely as the marginal rate of return for such inputs decrease rapidly after an initial surge (from a very low base) because of constraining factors such as poor soil conditions, inefficient water management, restricted land-holding system, seasonal labour shortage and rigid pricing policies of the state (the principal purchaser of agricultural produce through an elaborate quota system whereby individual farmers are obligated to sell a major portion of their output to the state).

NOTES AND REFERENCES

1. In fact, some researchers contended that empirical evidence did not support the hypothesis of causality between GNP and energy consumption in the U.S. economy. See, for example, E.S. Hyu and B.K. Hwang, "The Relationship between Energy and GNP", *Energy Economics* (July 1984), pp. 186-90.
2. World Bank, *World Development Report* (Washington, 1981).
3. J.S. Steinhart and C.E. Steinhart, "Energy Use in the U.S. Food System", *Science* 184 (1974):307; and H.T. Odum, *Environment, Power and Society* (J. Wiley, 1971).
4. H.T. Odum, op. cit.; F.P.W. Winteringham, "Food and Agriculture in Relation to Energy, Environment and Resources", *Atomic Energy Review* 18, no. 1 (1980); and M. Slessor, "Energy Subsidy as a Criterion in Food Policy Planning," *Journal of Science, Food and Agriculture* 24 (1973):1193.

5. World Bank, *World Development Report* (Washington, 1981).
6. Each physical input can be converted to energy equivalent of network input (ENI) expressed in physical energy units (BTU or kcal). See M. Slessor, *op. cit.*
7. M. Slessor, *op. cit.*
8. G. Leach, "Energy and Food Production", in *Energy Analysis*, edited by J.A.G. Thomas (IPC Science and Technology Press, 1977), chp. 5, p. 51. See also M. Webb and D. Pearce, "The Economics of Energy Analysis", *ibid.*, chp. 12; and M. Common, "The Economics of Energy Analysis Reconsidered", *ibid.*, chp. 13.
9. P. Chapman, *Fuel's Paradise* (Penguin, 1975).
10. G.M. Ward et al., "Animals as an Energy Source in Third World Agriculture", *Science* 208 (1980):570.
11. The village is situated in Taik-kyi township of Rangoon Division, and the total area of land committed to this demonstration project was 150.5 ha.
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- a conversion factor of 0.3 to account for moisture; and 4.4 Mcal/kg for groundnut assuming a 40 per cent weight loss in shelling. See *Encyclopaedia of Agriculture and Nutrition* (McGraw Hill, 1977); and H.W. Ocherman, *Sourcebook for Food Scientists* (The Avi Pub. Co. Inc., USA, 1978).
28. These values imply that these systems are more efficient (in pure energy terms) than industrial systems where the ER values for the agricultural sector as a whole had been estimated to be less than 1.0 (the break-even point) and as low as 0.3 (see G. Leach, op. cit., p. 52).
 29. Although data on specific physical inputs for the traditional production regime of the Pha-lon system could not be ascertained directly, the probable ER value for such a case could be inferred (from parameters given in Tables 4 and 5) to be of the order of 15.

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ASEAN-EEC Diplomatic Consultations on the Eve of an Extended Kuala Lumpur Agreement

ERIC TEO

In Europe, six nations (France, Germany, Italy, Holland, Belgium and Luxemburg) "determined to establish the foundations of an ever strengthening European peoples' union",¹ signed the Treaty of Rome on 25 March 1957, thus formally creating the European Economic Community (EEC). From "the Six", it soon became "the Nine" with the entry of Britain, Denmark and the Irish Republic on 22 January 1972, and then to "the Ten", when Greece came into the fold on 1 January 1981.

In Southeast Asia, five nations (Indonesia, Malaysia, Philippines, Singapore and Thailand) created a socio-economic association, the Association of Southeast Asian Nations (ASEAN), at Bangkok on 8 August 1967 "in the hope of consolidating the foundation of a prosperous and peaceful community of Southeast Asian nations".²

These two groups (one in the industrial north and the other in the developing south) seem to have been created in the same type of political and historical circumstances. Mr Lee Kuan Yew, during the Bali Summit of 23 February 1976, pointed out that just as the Soviet threat to Europe facilitated the creation of the EEC, the Vietnamese victory over Indochina pushed ASEAN onto its feet from 1975 onwards.³ Since then, the two entities have successfully begun a new era of politico-diplomatic consultations, unique in its kind on the international diplomatic scene involving two groups or associations or nations. Six and the half years after the first EEC-ASEAN Ministerial Conference in November 1978, and almost at the end of the first five-year term (on 30 September 1985) of the Kuala Lumpur Co-operation Accord signed between the two organizations,⁴ an analysis should be made of the progress in one of the two fields of ASEAN-EEC co-operation, namely, the regular political and diplomatic consultations.

ASEAN awoke from a nine-year slumber in 1976 at the Bali Summit, convened in the wake of the communist victories in Indochina and following the American pull-out from the region. As the five leaders watched Vietnam weaving its "special relationships"⁵ with their northern flanks, there was an increasing awareness that ASEAN had to pull its resources together in the face of communist consolidation in Indochina. This ASEAN awakening was one of the factors that helped launch this new era of ASEAN-EEC diplomatic ties.

In Europe too, things were moving towards the embryo of a common European diplomatic policy. After the collapse of the "Fouchet" plan, launched under the auspices of General de Gaulle in 1962, which could have ushered in a new

"political Europe", the Old Continent of the early 1970s was seeking a greater common political and diplomatic stand. From a very modest start embodied in the Davignon Report of 1970, the need for a common foreign-policy stand gained momentum at the Paris Conference convened by President Pompidou in 1972. Then in October 1973, the nine heads of state or government issued the "Common Declaration of European Identity", in which they agreed publicly for the first time to consult one another in foreign affairs not included in the perimeters of the Rome Treaty of 1957. This common foreign-policy stand was to be expressed by either the Foreign Ministers "meeting in Council" or by the European Council,⁶ created at the Paris Summit in December 1974 at the initiative of French President Valéry Giscard d'Estaing. Although unanimity is often very difficult to attain amongst the member-nations as the weight of the Big Three's foreign policies (that of France, Germany and the United Kingdom) is usually overwhelmingly decisive in the balance, this common will to consult each other over foreign-policy stands has appeared to be effective in many cases, such as in Afghanistan, in Cambodia, and in the Middle East.

ASEAN, which had rejected an earlier 1974 EEC proposal to sign a commercial agreement for the simple reason that the five-nation association wanted not only an economic relationship with the EEC, but also a politico-diplomatic one,⁷ saw that Europe was finally beginning to exert a more cohesive stand on the international diplomatic scene, just as ASEAN solidarity was making an impact on the world diplomatic scene. There was hence a certain parallelism in the way these two organizations were seeking to make their political and diplomatic voice heard "in unity" around the world, which in turn illustrates the converging view that "the future of world diplomacy may depend largely on group-politics and based on organized entities".⁸

A further step towards ASEAN diplomatic unity was achieved when Vietnam invaded Kampuchea to rout out Pol Pot from Phnom Penh in December 1978. The 13 January 1979 ASEAN Foreign Ministers' Meeting in Pattaya which condemned the Vietnamese invasion strongly was the starting point of a strengthening ASEAN diplomatic consultation mechanism which has become since then one of the most successful corner-stones in ASEAN activities. In fact, the important Paris newspaper *Le Monde* in a year's end review described ASEAN as "a political success by a semi-failure economic-wise".⁹

However, the "*rapprochement*" of the two groups in the field of politico-diplomatic consultations dates back to 1976 with an understanding in Bali that the five partners should widen their contacts with the Western world, be it in trade and investments or in diplomatic manoeuvres. As the EEC has no rights over foreign issues, ASEAN had to deal directly with the nine nations separately and not the group. (It may be interesting to note that the five ASEAN nations had already established diplomatic ties with the EEC, not long after its founding: Bangkok in 1962, Manila in 1964, Jakarta in 1967, Kuala Lumpur in 1968 and finally, Singapore in 1972). The Europeans had to deal with the five nations separately too as ASEAN has no common foreign-policy co-ordinating body, and policies are

only co-ordinated at the foreign ministers' level whenever it appears necessary. There is hence a great similarity in their approaches to "common" foreign policy within the two groups.

In July 1977, the five ASEAN foreign ministers formulated a wish to establish direct ties with the EEC's Council of Ministers. The first dialogue was then organized in November 1977 between the ASEAN Brussels Committee (ABC) and the COREPER (consisting of European Ambassadors accredited to the Community). It was at this meeting that ASEAN clearly asked for a ministerial meeting as a kind of "extension" to their successful August 1977 summit held between the five heads of state or government and the prime ministers of Japan, Australia, and New Zealand who flew to Kuala Lumpur. In June 1978, at the second ABC-COREPER meeting, the Inaugural ASEAN-EEC Ministerial Conference was fixed (on German request) for the month of November the same year in Brussels. Since then, five such ministerial conferences between the Fourteen (then Fifteen, then Sixteen) have been held.

The Inaugural ASEAN-EEC Ministerial Conference was held at Val Duchesse¹⁰ in Brussels on 20-21 November 1978, under German impulsion, initiative and co-presidency.¹¹ Dr Chiang Hai Ding, Singapore's Ambassador to Bonn at that time and currently accredited to the European Commission, however, believes that German interest in ASEAN dates back to the mid-1970s when Walter Scheel visited ASEAN lands before he left the "Ams Auswartig: for the Presidency of the Bundesrepublik". His successor, Hans-Dietrich Genscher, soon followed suit in 1977 with an official tour of ASEAN capitals, from where he became strongly convinced of ASEAN's economic potential and future growth. Genscher, "himself a regionalist, was personally motivated to help develop regionalism in South East Asia, just like what Jean Monnet saw in the Europe of his days."¹² He even dispatched his assistant, Frau Hamm-Brucher, to the five ASEAN countries in the early part of 1978 to help organize this first ministerial conference which would be held under German co-presidency. According to Dr Chiang, the ASEAN Brussels Committee co-ordinated the discussions on economic issues with the Commission, while the five ASEAN ambassadors at Bonn served as links between Herr Genscher himself and the five foreign ministers of ASEAN on political questions during preparatory sessions.

The year 1978 was a busy one for regional integration in the two groups as well as a year of much diplomatic lobbying. ASEAN was consolidating its decisions for further co-operation after the 1976 and 1977 summits, whereas in Europe, moves towards further European integration were made after agreement had been reached on the launching of the European Monetary System and on electing a European Parliament by universal suffrage. Diplomatic manoeuvres included the courtesy tours made by Asia's big communist tenors to the ASEAN lands, from Pham van Dong from Hanoi to Deng Xiaoping from Beijing. In Europe, the first chills of the Euro-missile issue were felt after Herr Schmidt's famous speech at the Institute for Strategic Studies in London at the end of 1977 and the following spectacular Soviet counter-offensive "threat campaigns" and pacifist movements.

Against this back-drop, the first conference was held at Brussels under the co-presidency of Herr Genscher and Indonesia's Dr Kusumaatmadja. Herr Genscher's part in the success of this first meeting was most evident as "he went to telephoning personally all the European Foreign Ministers to urge them to be present. Even M. Guiringaud who was very occupied managed to arrive just in time from Paris for the opening session!"¹³ This first gathering at Val Duchesse was in fact "more like an informal fireside-chat and a getting-to-know-each-other session".¹⁴ However, discussions dealt mainly with international economic issues, as the final communiqué showed, and for the first time, the Five recognized "the work of European integration and the role played by the Nine as a factor of economic and political stability and as an element of balance in international relations".¹⁵ It was also at this meeting that the idea of signing an ASEAN-EEC Co-operation Accord was first agreed upon and that another such conference should be held some time in spring 1980.

The Second Ministerial Conference was held in Kuala Lumpur on 7-8 March 1980. The Co-operation Accord was in fact ready by the end of 1979, but it was agreed that the Second Conference would be the ideal moment to affix the seven signatures to the agreement (five signatures for ASEAN, one by Signor Attilio Ruffini, Foreign Minister of Italy and President of the EEC Council, and one by Herr Wilhelm Haferkamp, Vice-President of the European Commission). Two major political events have since taken place and they were to bind the two entities even tighter in their common diplomatic strategies: Vietnam invaded Kampuchea in December 1978 and the Kremlin sent in troops to Kabul exactly one year after. These two aggressions were made by two communist powers feared by the two groups, each in its own regional context, and this "perfect combination"¹⁶ to condemn these two "liberations" made ASEAN and the EEC natural allies. Furthermore, ASEAN has two member-states in the Islamic Confederation and three of its member-nations belong to the Non-Aligned Movement which the Europeans can lean on for condemning "the Afghan take-over".

It was for this reason that the Second Ministerial Conference published a Common Declaration on Political Questions on 7 March 1980 — a unique document having the signatures of fourteen foreign ministers, nine from Europe and five from Southeast Asia, "deploring the armed interventions . . . against little independent states . . . in flagrant violation of International Law".¹⁷ In the same text, the EEC also came out strongly in support of ASEAN's project of a "Zone of Peace, Freedom and Neutrality"¹⁸ in Southeast Asia. This Conference marked the beginning of a new era in economic co-operation between the two groups in the signing of the five-year Co-operation Accord in Kuala Lumpur, just as it ushered in the "quasi-institutionalization" of these ministerial conferences, bringing together the foreign ministers of the EEC and ASEAN once every eighteen months for informal *tour d'horizon*, as well as for stock-taking between the two economic entities.¹⁹ In fact, the Paris daily, *Le Monde*, called this conference "a notable success for ASEAN as not only the EEC associated itself with ASEAN's Cambodian stand but the Kampuchean crisis which had got bogged down since last

November's Resolution (at the United Nations) was once again propelled onto the foreground".²⁰ One can therefore say that the Kuala Lumpur Conference was probably the most important of the four held so far.

The Third Ministerial Conference was held in London on 13-14 October 1981 and chaired by Lord Carrington on the European side; it once again examined the situation in the "two zones of instability in Asia — Kampuchea and Afghanistan". The world scenario had changed once again: the EEC became more aware of Poland's plight; pacifism was mounting in Europe, while in Asia, Sino-American relations took a dip downwards, and not far away Afghanistan, Iraq and Iran were at war. The International Conference on Kampuchea (ICK) was held in July 1981 but it was partially sabotaged by the absence of the Soviet Union, Vietnam, and their allies. The Fourteen, however, expressed satisfaction at the outcome of the ICK and supported its resolution, though M. Claude Cheysson began expressing a more neutral French Socialist position than his predecessors of the Quai d'Orsay in not supporting wholeheartedly ASEAN's initiative for the "supple coalition"²¹ of Kampuchea. On the international economic scene, the fourteen ministers reaffirmed their support for the Ottawa resolution denouncing protectionism and expressed their hope that the Cancun summit due at the end of October would launch "global negotiations between the North and the South". It was, in fact, a "Conference of Reaffirmation" (with nothing spectacularly new): "there was a very large identity of views shared by the two partners, these common identities being reflected in the ministerial declarations of Kuala Lumpur and London."²²

The Fourth Ministerial Conference, held in Bangkok on 24-25 March 1983, proved to be the most controversial. Due to be held on 10-11 February initially, the Conference had to be postponed because of uncertainties in German politics. Herr Helmut Schmidt's government was toppled after the defection of Herr Genscher's Liberal Party from the coalition and new elections were held on 6 March; the "German future" was of great importance to the meeting as Germany was to hold the presidency of the EEC during the first semester of 1983 and the co-presidency of this Fourth ASEAN-EEC Ministerial Conference. ASEAN ministers were also concerned with the "fate" of Genscher as the Foreign Minister, named earlier by the Malaysian press as the "strongman of ASEAN-EEC ties".

In fact, Herr Genscher was once again nominated the Foreign Minister of the Bundesrepublik on 23 March, just as in Paris, a Cabinet reshuffle reconfirmed M. Cheysson in the Quai d'Orsay post only at 2350 hrs on 22 March so that the two ministers who were to play key roles at the Bangkok Conference only had time to fly to the Far East after their "consecration". It was probably the "Conference of the Last Minute", as well as the most "split" in its five-year history!

The behind-the-scene haggling and discussions had been going on since February 1983 at the official specialist level, and no common position had been achieved before the afternoon of 25 March. It was also the first time Greece participated officially, bringing the number of ministers to fifteen, and the first time that all the ten European ministers were present at such a conference. It was also at

this meeting that the Europeans suggested that such a conference should widen its scope of discussions, "taking it out of a purely local or economic context and towards a more global appreciation of the world situation".²³

Once again, new factors had come onto the world stage since the last meeting: Leonid Brezhnev had died leaving the Kremlin in the hands of Yuri Andropov; Yasuhiro Nakasone had become Prime Minister of Japan; Herr Helmut Kohl had swept into power in Bonn ending thirteen years of SPD governments, and 1983 was to be the crucial year in the Euro-missile crisis. Rumours were also spreading about a possible Sino-Soviet *détente* especially after the famous handshake between Andropov and Chinese Foreign Minister Huang Hua (after Brezhnev's funeral), and there were also talks of a new era of American-Japanese partnership, both of which could have significant implications on the prolonging Cambodian crisis, and to a much lesser extent on the Afghan problem. On the Kampuchean issue, the "supple coalition" had finally been formed (with ASEAN's help) at the Khao-I-Dang camp on "liberated territory", just as Vietnam seemed to be extending a dismal hand of friendship at the New-Delhi Non-Aligned Meeting. This gesture had in turn split ASEAN solidarity for some time over how to deal with the new Hanoi proposal, and the united ASEAN position was only finally retrieved on 23 March, one day before the Fourth Conference. Beijing too had a new plan, accepting for the first time since 1979, the possibility of a "neutral and non-communist Kampuchea".²⁴

It was no wonder, taking into account all these new manoeuvres since 1981, that the final Bangkok Communiqué focused eleven of its thirty-three paragraphs on Kampuchea although the order of the two-day meeting was globally divided into four categories: Southeast Asia, international politics, the international economic situation, and lastly, the bilateral ASEAN-EEC co-operation. Problems were most acute in the drafting of the final communiqué concerning Southeast Asia: in fact, Mr Ghazali, the Malaysian Foreign Minister, added that "France was dragging its feet, but when the Foreign Minister came, the whole thing was sorted out".²⁶ Paris' disagreement was voiced in three areas of the Kampuchean crisis: French aid, or any aid for that matter (especially when M. Cheysson was expected in Hanoi immediately at the end of the Bangkok Conference), the recognition of the new Prince Sihanouk coalition, and finally the wording of the Nong-Chan attack condemnation. Mr Cheysson finally agreed that "no assistance should be given to Vietnam of such a nature as to sustain and enhance the Vietnamese occupation of Kampuchea".²⁷ He took off the word "government" from Prince Sihanouk's coalition,²⁸ just recognizing that "the formation of the Democratic Kampuchea coalition under the Presidency of Samdech Norodom Sihanouk constitutes a significant step in the search for a comprehensive settlement",²⁹ (replacing the word "positive" suggested by ASEAN by "significant").³⁰ As for the condemnation of the Nong-Chan attack, the compromise softened the condemnation of Vietnamese attacks on "un-armed civilians". Moreover, mention was again made of the 1971 ASEAN idea for a "Zone of Peace, Freedom and Neutrality" (ZOPFRAN) in Southeast Asia (para. 11) and gratitude was expressed

by the ASEAN countries for the Community's aid to Indochinese refugees in Thailand (para. 15). (It is estimated that the EEC aid stands at 40 per cent of all aid given each year.)³¹

In the other areas, ASEAN reiterated its support for the 1981 EEC proposal for an International Conference on Afghanistan, and for the first time ASEAN supported the Community's position on the Middle East, as outlined by the British Foreign Secretary, Mr Francis Pym.³² The three ASEAN foreign ministers present at the New Delhi Non-Aligned Conference which opened on 7 March shared their views and informed their colleagues from Europe of the decisions taken in the Indian capital (para. 20).

Finally, the Conference was marked by an interesting exchange of viewpoints on protectionism: Mr Siddhi Savetsila, the Thai Foreign Minister, speaking on behalf of his ASEAN colleagues, criticized the EEC for "its protectionist measures adopted through subsidies, these having disastrous effects on farmers in developing countries".³³ Mr Haferkamp, speaking on behalf of the Commission, then counter-argued that the Ten bought from ASEAN four times more of manufactured goods than Tokyo did, and at least 60 per cent more than Washington. In fact, the fifteen ministers agreed on the importance of free trade but could not agree on the position of the European Community's market.³⁴

The Conference ended surprisingly well (the *Straits Times* of Singapore, in fact, claimed that "ASEAN marked a certain success" in the Bangkok Declaration)³⁵ although a diplomatic incident was soon to take place when M. Cheysson flew to Hanoi. At a press conference, the Vietnamese *Press Agency* claimed that Cheysson "approved" of Vietnam's occupation of Kampuchea to prevent "a repetition of the horrors, unprecedented in history, which were known in the days of Pol Pot". This version published by Hanoi was soon denied and rectified by the Quai d'Orsay in a note sent to Thailand's Ambassador in Paris following ASEAN's protest. This little sour note just emphasizes the increasingly diverging viewpoints between socialist Paris and non-communist ASEAN and may continue to provoke more misunderstandings in the future as the Cambodian crisis prolongs and no reasonable solution seems to be in sight.

Finally, the Fifth EEC-ASEAN Ministerial Conference was held in Dublin on 15-16 November 1984. This Conference did not show any marked divergences, unlike the Fourth in Bangkok, and for the first time, it was a conference of sixteen member-states: Brunei Darussalam had joined ASEAN in January 1984. This six-to-ten conference emphasized the importance of the Kuala Lumpur Agreement and the regional *entente* reached; and "considering that the ASEAN-EEC Co-operation Agreement would soon be completing its fifth year, the ministers felt that it would be auspicious to take stock of their co-operation, in particular, its economic aspects."³⁶ They clearly stated that "another meeting of relevant Community and ASEAN Ministers be held on economic matters as soon as possible".

In the field of international relations, the world had changed since March 1983. Andropov had passed away, paving the way for a former Brezhnev protégé, Konstantin Chernenko, to reach the summit of the Kremlin. Mr Chernenko was

said to be a hard-liner, especially after the enlightening reformatory moods of the Andropov era, but Chernenko's views on China remain to this day a complete mystery and no Soviet-Chinese *détente* was seen. In fact, after the tragic shooting down of the KAL aircraft and the Rangoon bomb tragedy, East-West affairs took a hard turn when U.S. President Ronald Reagan, on the road towards a record electoral triumph in 1984, launched his "Star Wars" defence strategy, hoping to coax the Soviet Union back to further serious East-West negotiations and contacts after the breakdown in Geneva in the winter of 1984. East-West relations was, hence, at an all-time low and it was no wonder that the communiqué of Dublin attached special importance to the scheduled resumption of the Geneva talks between Schultz and Gromyko in January 1985.³⁷ U.S. commitments to the Pacific Zone also took an important turn with President Reagan's visits to Tokyo, Seoul and Beijing, just as the Marcos regime seemed shaken after the "Aquino affair" — a major setback for American involvement in Southeast Asia. On the Indochinese scene, no notable events took place (except for Norodom Sihanouk's plea for national reconciliation and Hanoi's play of the Sihanouk card) and the Cambodian stalemate sailed into its seventh year, just as Soviet occupation of Afghanistan saddled into its sixth year.

During the Conference, a large section was again devoted to Kampuchea. This communiqué on the Cambodian crisis resembled that signed in Bangkok, with the same French "reserves" in paragraphs 7 (on aid), 8 (the anti-Vietnamese coalition of Norodom Sihanouk) and 10 (on the bombings of refugee camps). As for the EEC's view on Afghanistan, ASEAN support was once again unfailing, just as for the Middle-East crisis. (A special mention was made of Lebanon and the wish for an early peaceful Iran-Iraq solution was reiterated).

On bilateral EEC-ASEAN co-operation, special mention was made of narcotics trafficking³⁸ and cultural co-operation³⁹ — two specific areas for future bilateral co-operation and development. Further development was to be conceived in the EEC's GSP to ASEAN,⁴⁰ trade promotion as well as financial co-operation and investments, training and development co-operation. Finally, on international economics, both sides expressed hopes of a fast economic recovery, of more trade liberalizations (in fulfilling "the objectives of the 1982-GATT Ministerial Meeting"),⁴¹ of a solution to Third-World debts, of closer co-operation in the Integrated Programme for Commodities (Tin, Rubber, Sugar, Tropical Timber and Cocoa),⁴² as well as of the launching of global negotiations on international economic co-operation for development within the U.N. system.

Looking back at the last five years, it can be safely said that these regular meetings have been "quasi-institutionalized": five conferences in 72 months since November 1978. To the Europeans, ASEAN is now highly regarded as a "zone of stability in Southeast Asia",⁴³ especially after its "remarkable achievement in diplomatic orchestration",⁴⁴ and certain constant factors can now be clearly spelt out. Firstly, there are in general three categories of discussion matter: the general international political situation, world economic problems, and finally, specific questions pertaining to the application of the Kuala Lumpur Accord. The relative

importance of each category depends on the international and bilateral context at the time of each conference. Secondly, it has been noted that besides the presence of the fourteen (then fifteen) foreign ministers or their assistants, the Commission has always been represented by its President and/or one Vice-President, while ASEAN is represented by its Secretary-General from Jakarta, thus symbolizing the bilateral character of these meetings. Thirdly, it is now customary to hold these conferences alternately in Europe and in Southeast Asia. Fourthly, the level of foreign ministers' participation has been high for the four conferences (at about 88.9 per cent for the Europeans⁴⁵ and at 100 per cent for the ASEAN ministers). Finally, one peculiarity to protocol took place at the Third Conference when the five ASEAN ministers, after conferring with their European counterparts in London on 13-14 October 1981, flew to Brussels to meet the Commission on 15 October for an informal working session on purely bilateral economic matters.

This series of regular EEC-ASEAN consultations at the foreign ministers' level is unique. The EEC's Development Commissioner, Edgar Pisani, has called for a strengthening of Euro-South relations, "preferably with groups of developing countries".⁴⁶ ASEAN is, in fact, the only coherent Third World grouping and the only one with which the EEC has signed a Co-operation Accord. (The group of 61 ACP (African-Caribbean-Pacific) countries with whom the EEC has a Convention, "Lome II", does not form an economic and political entity.) Dr Chiang Hai Ding explains the uniqueness of the partnership by referring to Theo Summer's *Pentagon of Power*: "The U.S., USSR, China and Japan are all found on the edges of the Pacific Basin; can the fifth power, the EEC, ignore the special interests of this region? The EEC can have ASEAN as a viable partner in this region who shares an analogous interest in the preservation of stability in the world of rapid mutation. The Europeans can see that ASEAN has friends and that she represents five unified voices in the Third World".⁴⁷ Mr Robert Hull of the Brussels Commission calls ASEAN "EEC's stepping stone into the Pacific",⁴⁸ just as Dr Chiang hopes that the Ten would recognize "its exchange of advantages"⁴⁹ with ASEAN. Economically and politically, ASEAN and the EEC have a lot to gain by working together, applying the Kuala Lumpur Accord on Economic Co-operation, but perhaps more so in the diplomatic arena where these unique and regular ministerial conferences have shown the whole world the weight of the two "ensembles", which perhaps constitutes a model for future world politics and diplomacy. Herr Genscher notes that "ASEAN and the EEC are two communities exercising a preponderous and growing influence on the future of their respective regions. Together, they will, at the same time, contribute to regional peace and stability and towards a new world order of partnership and co-operation. Through active and successful co-operation at the regional and inter-regional levels, they will be able to supply the world a model for tomorrow!"⁵⁰

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4. The ASEAN-EEC Economic Co-operation Accord signed in Kuala Lumpur on 7 March 1980.
5. This expression was used by Philippe Richer, a French specialist on Southeast Asia in his book, *"L'Asie du Sudest: Indépendance et Communismes"* (Paris, 1981).
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Industrial Development in Singapore and South Korea: A Challenge to Development Economics?

J.R. CHAPONNIERE

Drawing a comparison between Singapore and South Korea* may seem like an unfounded exercise, these countries being so highly dissimilar to each other in both geographical and historical features. Singapore, an equatorial city-state with 2.5 million people, has a smaller population than Busan, the second largest city of South Korea, a temperate country with 40 million people and the capital of which, Seoul, has a population close to 10 million. Being a city-state Singapore possesses no hinterland; on the other hand, South Korea has 98,000 square kilometres and is characterized, together with Japan and Taiwan, by having the highest population density in relation to cultivable land of any country in the world.

A creation of the British Empire, Singapore was founded in 1819 because of its strategic location and natural harbour — factors that bestowed advantages on its entrepôt trade. In contrast, Korea, a unified kingdom since the sixth century AD, remained a completely closed pre-modern society, the "Hermit Kingdom", until 1876 when it was forced to open its doors to the outside world by Japan and later became (in 1910) a Japanese colony.

TABLE 1
PRINCIPAL CHARACTERISTICS OF SINGAPORE AND SOUTH KOREA, 1984

	<i>Singapore</i>	<i>South Korea</i>
Population (millions)	2.5	40.5
Area (1,000 km ²)	0.6	98
GNP per capita (US\$)	5810	1910
Exports (US \$ billions)	24.1	23.1
Imports (US \$ billions)	28.7	24.8
Openness (X + M/GNP)	3.6	0.6
GNP growth rate (60-82)	7.4	6.6

SOURCES: *Korea Statistical Yearbook 1984*, *Economic Survey of Singapore 1984*, and World Bank, *World Development Report 1984*.

* The Republic of Korea will be referred to as South Korea.

Despite these dissimilarities these two countries belong to the same economic category; both are considered by the World Bank as "intermediate income countries". Moreover, they represent two major examples of newly industrialized countries (NICs). Indeed, if one disregards such objective factors as country size, location, history . . . and looks at them through economic criteria one cannot fail to notice their similarities. International trade accounts for about US\$50 billion in each country, and both are highly dependant on trade. During two decades, they have achieved a very impressive rate of economic growth.

Comparing South Korea with Singapore may not be such an unfounded exercise after all. Explanation of their economic achievement remains a challenge for development economics: in the fifties and sixties development economists did not advocate export orientation as a strategy but nowadays the Asian NICs represent an unsolved paradox for "dependentists". Several economists have concluded that choosing the right economic policy was the main ingredient of their economic success.

Industrial Growth and Economic Development in Singapore and South Korea: An Overview

Industry has been the main engine of growth and development in the two countries during the last two decades. However, Singapore and South Korea differ in their pre-war industrial experience, and this difference, together with other factors such as country size, geopolitical location and so forth are to be advocated to explain their different industrial policies.

Until the late 1950s, the Singapore economy functioned primarily as an entrepôt linking its resource-rich hinterland to the world. Industrial opportunities developed slowly. In 1931 43,000 people (16 per cent of the working population) were engaged in manufacturing activities. Apart from food processing industries such as pineapple canning, the most notable industries were ship-repairing activities, and engineering (Tate 1979). By 1959, the year of the first census of manufacturing industries, there were 554 establishments employing more than ten workers. Total employment was 250,000, whereas the 1957 census of population had shown that 67,000 claimed to be involved in a manufacturing activity. The difference between these two figures reveals the existence of quite a large unorganized manufacturing sector consisting of marginally productive and profitable small-scale establishments which could tap the reservoir of unemployed or under-employed; during the late fifties up to 13 per cent of the total labour force was under-employed (Pang 1981). Manufacturing employment accounted for 16 per cent of total employment, less than the share of entrepot's related activities which was 26 per cent. The manufacturing sector's share of GDP (gross domestic product) was 12 per cent. This sector was made up of industries processing raw materials from neighbouring countries, and light consumer goods industries catering for the domestic and Malaysian markets (Chia 1982).

In contrast, South Korea had experienced a dynamic industrial history as a

Japanese colony (Kwang and Roemer 1980). During the 1920s Japanese investment in manufacturing activity began to increase in the processing of raw materials. Between 1930 and 1937 investment in light industries showed a remarkable growth, and in the late thirties the colonial government gave emphasis to the expansion of heavy and chemical industries in order to supply military goods to Japan. Manufacturing employment more than trebled from 1926 to 1939 to reach 262,000; the share of this sector in net commodity products rose from about 3.5 per cent in 1910-15 to 22.1 per cent in 1981 (Westphal et al., 1982a). A substantial share of industrial output (40 per cent in 1940) consisted of heavy industries which were mostly located in the north, while the light industries were concentrated in the south of the peninsula. South Korea suffered extensive damage in the World War and again during the Korean War (1950-53), and the partition of the peninsula also disorganized the economy. During the fifties, South Korea reconstructed its economy, and since exports were small, the source of foreign exchange was aid. In the fifties, South Korea together with Israel, a country where per capita aid was the highest in the world, had 80 per cent of domestic investment financed by foreign aid (Krueger 1980a). By the early sixties, the country had achieved its reconstruction (Madurhi 1981) and the first phase of its import-substitution process (Hong 1980, Westphal and Kwung 1982b), the stage consisting of products of light industries. Different perceptions of this first decade of Korean industrialization can lead to divergences in judgement concerning Korean development during the following years. In 1962, manufacturing activity accounted for 14 per cent of the GDP, and manufacturing employment was 12.2 per cent of total employment in 1962-66; 36 per cent of these workers belonged to the unorganized sector. Unemployment was an acute problem, being 8.2 per cent of the labour force. However, these figures are not reliable, as under-employment was widespread.

In the 1960s in both countries, industrial growth geared to export markets appeared as the main development objective.

In Singapore, it was recognized that entrepôt trade was not sufficient to foster economic development. In its first, and unique, five-year development plan, the government launched its industrial programme designed to induce private enterprise to invest through the Pioneer Industries Ordinance, and the Industrial Expansion Act. It was stated (Ministry of Finance, 1961) that the domestic market for manufactured goods was not small when compared to those of countries with much larger populations, such as Sri Lanka. Its GNP was also roughly one-quarter that of South Korea, which is eight times more populated. Infant industries protection was advocated (Tan and Ow 1980, Pang 1981) and the Economic Development Board (EDB) was set up to promote the industrialization programme. The anticipation of the Malayan Common Market also helped to attract foreign investment. The separation of Singapore from the Federation of Malaysia (1965) and the announcement of the British withdrawal of its troops (1968) led to the implementation of a new strategy. The necessity of turning from the internal market to manufacturing for export became dominant. Export incentives were enlarged and in a climate of political crisis, industrial discipline was tightened. The economic expan-

sion incentives of 1967 included several tax exemptions on profit earned by manufacturing for export; and easier access to duty-free inputs was secured for exporters. The Employment Act and the Industrial Relations Act gave greater discretion to employers and reduced labour costs (by setting limits on bonuses, paid leave, retrenchment benefits and so forth).

In South Korea, the adoption of an export promotion policy can be regarded as a response to declining U.S. aid which had financed the post-war reconstruction. The value of imports was ten times that of exports and some cuts in aid in 1958-60 had been accompanied by falling growth rates (Hamilton 1984). Although some export promotion measures had been taken earlier (an export-import link system was initiated in 1951), they had failed to produce appreciable results (Madurhi 1981). Beginning with the military government of 1961, economic policy shifted from the previous emphasis on reconstruction and stabilization to a programme of growth maximization through industrialization. In 1965, Japan and Korea renewed diplomatic and economic relations, and imports of Japanese machinery were resumed, Japanese banks provided credit, and *sogoshas* helped Korean firms to export either to the Japanese market or elsewhere. In the early seventies, foreign investment began to play a more important role.

Since then, a basic economic goal has dominated each of the five-year development plans: export-oriented industry and growth. The export orientation was strengthened by a package of policy reforms publicized in the mid-sixties: the won was devalued and a unitary floating exchange rate adopted in 1965, interests on bank deposits and loans were doubled, trade liberalization and tariff reforms followed in 1967, and export incentives were intensified (such as indirect tax exemption on inputs for export production, reduction of income tax on export earnings). However, this export orientation was not exclusive of an import-substitution strategy for intermediary products such as fertilizer, synthetic textiles, iron and steel.

A short time after the introduction of these export promotion measures high rates of economic growth were attained in both Singapore and South Korea. The expansion of manufacturing output was made possible by the ever increasing exports of manufactured goods. This industrial dynamism explains the structural shift that has taken place in both economies. Manufacturing contribution to GDP increased from 12 to 25 per cent in Singapore between 1960 and 1983, and from 14 to 25 per cent in South Korea in the same period (Table 2). However, manufacturing expansion was not detrimental to non-manufacturing activities.

In South Korea, the trade liberalization did not affect agriculture which has remained a highly protected sector. The government's purchase price for rice has been maintained above world price levels and emphasis has been put on improved rural infrastructures. Rice self-sufficiency was attained in 1978, and the changes in the consumption pattern should reduce rice demand in the years to come. Moreover, rural income growth has offered a growing market to the manufacturing industry. During the eighties, in such an export-oriented economy as Korea, the domestic market accounted for 60 per cent of manufacturing sales.

TABLE 2
SECTOR SHARE OF GDP AND GROWTH RATE IN SINGAPORE AND SOUTH KOREA

	Share of GDP				Growth rate			
	1960		1983		1960-70		1970-82	
	S'pore	S.K.	S'pore	S.K.	S'pore	S.K.	S'pore	S.K.
Agriculture	4	3.7	1	16	5.0	4.4	1.6	2.9
Industry	18	20	37	37	12.5	17.2	8.9	13.6
(manufacturing)	(12)	(14)	(25)	(24)	(13)	(17)	(9.3)	(14.5)
Services	78	43	62	47	7.7	8.9	8.6	7.8
GDP	100	100	100	100	8.8	8.6	8.5	8.6

SOURCES: As for Table 1.

In the Singapore context, given the small size of the country, the success of the industrial policy was highly dependant on the handling of the service sector (Lee 1982). The provision of housing services was crucial to the wage cost element in industry. With the expansion of port facilities and the growth of the financial sector, Singapore has become a major centre for trade, commerce, banking and financial networks and, according to a United States study, is now among the top 25 exporters of services in the world. This in turn has greatly enhanced the attraction of Singapore as a manufacturing centre for exports.

Because of its rapid growth, the manufacturing sector has been the main source of employment creation during the last two decades. In Singapore, it accounts for 42 per cent of the new employment created between 1957 and 1980 whilst in South Korea, this ratio was close to 35 per cent during the same period. In both countries, the share of the informal sector has declined over time — very drastically in Singapore (50 to 12 per cent in four years), and slowly in South Korea (from 36 to 27 per cent in twenty years) where rural emigration has been phenomenal.

In both countries, export development has entailed the promotion of large-scale enterprises; small and medium-scale industries have played a diminishing role in the economy as concentration grew. The growing importance of multinational corporations in Singapore is parallel to the growth of *chaebol* type of industries in the Korean economy.

In the fifties, Singapore manufacturing industries were not made up of very small firms; in the "organized" sector the large number of small establishments (less than 100 workers) employed 58 per cent of total employment. The main thrust of industrial efforts has been in the promotion of large-scale multinationals geared to export markets (Pang 1981). Less attention and support was given to the small-scale industries because they were not oriented towards exports: the number of establishments with less than 100 workers increased sixfold in 22 years, whereas establishments with over 100 workers increased tenfold, and their share of total employment grew from 42 to 68 per cent (Pang 1981).

In South Korea, the group of thirty companies known as the "*chaebol*" contributed 16 per cent of the nation's GNP (gross national product) in 1983, and

according to a testimony at the National Assembly (*Financial Times*, 15 May 1985) they managed to obtain 48 per cent of bank lending. Export promotion and credit facilities for the successful enterprises explain the concentration that has taken place: small establishments (under 100 employees) employed 27 per cent of total labour in 1982, compared to 66 per cent in 1958 (Ho 1980).

This bias against small and medium enterprises is now denounced for similar reasons in both countries. The smaller firms have difficulties coping with technological upgrading and this limits their ability to enter into subcontracting arrangements with larger ones.

Manufacturing employment growth was a consequence of the export promotion policy and of entrepreneurs' response to the incentives proposed by the government. Export sales have represented an increasing share of manufacturing output. Because of its processing activities the share of exports was already unusually high in Singapore, 54 per cent in 1973; it grew to 60 per cent in 1982. South Korea, which had been an open economy in pre-war years, exported no manufactured products in the early sixties; the ratio of exports to sales was 6 per cent in 1965, 20 per cent in 1970, and 31 per cent in 1976, and stayed at that level.

During the sixties in Korea, and the late sixties in Singapore, the main export items were consumer related products such as wigs and plywood (the main Korean exports during that period) or electronic components in Singapore. This type of industries gave rise to a large increase in imports together with the expansion of exports. The growth capacity in the export sector could only to a small degree be carried over to other sectors of the domestic economy. This export-oriented industrialization has often been labelled "international subcontracting (Wanatabe 1972).

These manufactured products for export required labour-intensive processes; however, it cannot be said that both countries shared a common "comparative advantage" in labour-intensive industries. Due to the nature of its *entrepôt* economy, wages in Singapore had always been higher than in other Southeast and

TABLE 3
AVERAGE MONTHLY EARNINGS IN
MANUFACTURING IN CURRENT U.S. DOLLARS PER
MONTH

	1965	1970	1984
Singapore	62.4	61.9	575
South Korea	22	35	381

SOURCES: Compiled from various issues of *Korean Statistical Yearbook* and *The Report on the census of industrial production of Singapore*.

East Asian countries. As Singapore turned to manufacturing for export it could not afford to specialize in labour-intensive products (Hughes and You 1969). Labour costs were high compared to competitors such as Taiwan and South Korea. Measured in current U.S. dollars, wages were considerably higher than in South Korea: this expresses the difference in economic level between the two countries and also the structural diversity between a city-state and a country where 40 per cent of the population is engaged in agricultural activity.

This "easy export stage", which is often over-emphasized in economic literature, did not last long.

In Singapore, the emphasis on low technology, labour-intensive industries came to an end in the early seventies. Growth had generated sufficient employment to wipe out unemployment by 1972. Measures were introduced to attract higher technology industries that could cater to regional and world markets. The pioneer status was modified to encourage greater capital intensity. Relying on its strategic location Singapore has become an oil refining centre (the leading industry in 1970), and a major ship-repairing and oil-rig centre. The 1975 recession strongly affected Singapore's export industries (Table 4), especially in the electronics sector, in which one-third of the workers were retrenched. This crisis contributed to reducing the emphasis on high technology and the recovery in 1976 created a strong demand for workers and an inflow of foreign workers. In mid-1979, the government renewed its higher technology policy, and launched its "Industrial Revolution" and drive towards high tech. This industrial restructuring entailed three major restructuring policies (Pang and Lim 1984): wage correction (higher rises in 1979, 1980 and 1981); changes in capital incentives for upgrading existing facilities and establishing highly skilled and capital-intensive industries such as industrial electronics, machine tools, offshore equipment, and aircraft; manpower training and changing policy on foreign labour.

Singapore's decision to develop a petrochemical industry downstream of its refining activities, as the world's third largest, seemed natural in 1978 (Fouquin 1985). The operation was backed by Japan which in order to protect itself against the risk of breakdowns in the supply of raw materials had been participating very actively in the development of mining and first-stage processing of raw materials in several countries; since the Japanese petrochemical production capacity had been drastically reduced, the opening of its market to upstream petrochemicals appeared to offer a promising outlet.

Like Singapore, South Korea is now engaged in a drive towards high tech. However, the industrial transformation cannot be attributed to the same factors. The surge of labour-intensive exports has led to a decline of unemployment and a rise in wages. However, their levels were lower than in Singapore, Hong Kong or Taiwan when, in the early seventies, Korean planners called for a new industrial strategy in favour of heavy and chemical industries. They were anticipating the competition of future low-cost competitors from Southeast Asian countries and China in light industries, and were eager to develop a heavy industrial sector which could back up their defence-related industries.

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TABLE 4
GNP GROWTH
(in per cent)

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984
Singapore	13.4	12.5	13.4	11.2	6.7	3.9	7.2	7.7	8.5	9.4	10.2	9.9	6.3	7.9	8.2
South Korea	10.1	10.8	6.1	15.3	8.3	8.1	13.9	10.1	11.3	7.1	-3.5	8.0	5.2	8.8	7.5

SOURCES: *Korea Statistical Yearbook and Economic Survey of Singapore*, various issues.

This shift of policy had been prepared as early as 1967 when a series of laws designed to support investment in heavy and chemical industries were introduced. The heavy and chemical industrialization is the result of progress towards import substitution of input materials via the route of export-oriented industrialization for the production of final consumer goods. This is not according to the general pattern of industrial deepening which a number of developing countries have tried to apply, that of progressing to import substitution of materials through import substitution of final consumer goods (Wanatabe 1978). The progress of import substitution in intermediate products, such as iron and steel and petrochemicals, was substantially influenced by the rapid growth of manufactured exports: exports of garments enlarged the domestic market for domestic textile industries, which were then able to compete with imported products and to export. The market for domestic yarn manufacturers also grew in size, and in turn they were able to compete with foreign imports and to export. This process went on until the setting up of a petrochemical sector which, for oil price reasons, was never able to export. This mobilization of industrial activities can be described as backward linkage import-substitution fuelled by export competitiveness. Ship-building and machinery industries were given a high priority in the early seventies, and these infant industries were developed for export promotion. The proportion of manufacturing investment in heavy and chemical industries rose to 77 per cent between 1973 and 1981 (Park 1983). The 1975 world recession did not slow down the Korean drive towards heavy industry. This recession was less perceptible in South Korea than in Singapore (Table 4) as the government relied heavily on foreign loans to finance its commercial deficit and its heavy investment. Investment in heavy industry needs a longer time to mature than that in the consumer goods industry. This, together with the growing flow of workers' remittances from the Middle East increased the inflation rate. The second oil shock, and the rise in interest rates on loans, had already adversely affected the economy when the assassination of President Park triggered a social crisis (GNP growth in 1980 was -3.5 per cent). After three years of adjustment, the Korean economy has rebounded with high growth rates, and the government's willingness to promote high technology industries is as strong now as it was ten years earlier when the country embarked on its heavy industries strategy.

Two decades of industrial growth have profoundly modified the industrial structure of both countries (Table 5). The industrial sectors can be aggregated into three main categories according to the end-use of products: consumer industries; intermediary industries; and capital goods industries. In the early sixties, consumer goods industries were dominant in terms of value-added and employment in the two countries, accounting respectively for 55 and 63 per cent of manufacturing value-added in Singapore and Korea. Twenty years later, intermediate goods and capital goods are playing a much bigger role. In both countries, emphasis on capital goods bears some relation with the defence industry.

TABLE 5
INDUSTRIAL STRUCTURE: PERCENTAGE OF MANUFACTURING VALUE-ADDED

	1960		1983	
	Singapore	S.Korea	Singapore	S.Korea
Consumer goods	55	63	26	39
Intermediary goods	28	25	27	27
Capital goods	17	12	47	34

SOURCES: Compiled from *Report on the Census of Industrial Production* (Singapore: Department of Statistics, 1960, 1983); and *Industry in Korea 1984* (Korea Development Bank, 1984).

Both countries are now trying to make headway into high technology. In sectors such as electronics, Korean firms can no longer find foreign firms willing to license their technology. They have to rely on their own R&D (research and development) efforts or to invest in high tech firms operating in the Silicon Valley, like Hyundai or Daewoo which can recruit highly skilled Korean immigrants. In their drive towards high tech the Korean firms want to leapfrog lower generation memory chips and be an early participant in 64K and 256K DRAM memory markets which are large and standardized. It is thought that experiences gained in this field could be used to develop custom chips for which a booming market is widely predicted over the next few years; such a move will necessitate research and design capacities which are in short supply.

Korea aims at building a strong industrial base, while Singapore wants to secure an industrial "niche" in high tech sectors, to use high technology rather than to produce high tech products. The EDB is competing with similar organizations of industrialized countries in its efforts to lure foreign high tech firms to come and invest in the city-state. In micro electronics, backward integration began with the setting up of testing facilities for components produced in Singapore or elsewhere. It went on with the investment in mask making and wafer fabrication, the very heavy capital and technology intensive "front end" of semi-conductor manufactures. It has gone further by announcing new investments in integrated circuit designs. These investments are foreign-owned, and these backward linkages are built through foreign subsidiaries of multinational firms. However, it would be highly misleading to think that these new ventures are "foot-loose".

Singapore and Korea, together with Hong Kong and Taiwan, have emerged as the world's most rapidly growing countries. In 1960 they were not radically different from other developing countries while in the eighties one speaks about their "graduation" to the ranks of OECD (Organization for Economic Co-operation and Development) countries.

In the context of growing disenchantment with development progress and development theory (Lewis 1981) the explanation for their success is a challenge.

A Challenge to Development Economic Theory

Singapore and South Korea have embarked on an industrial strategy based on export promotion. Such a strategy had not been advocated by development economists in the fifties or the sixties. Indeed, manufactured exports were never talked of in the first debates on growth strategies. They focused instead on the ways to achieve a balanced growth, how much to invest, where to invest and which techniques to employ. Most economists shared what has since been labelled as "export pessimism" (Little 1982). In the Wickels lectures, Nurske had declared that the era of export growth was over and that trade could no longer be expected to be an engine of growth. The export of manufactures did not appear to be feasible; one would have thought that differences in wages would be more than offset by differences in productivity.

International circumstances prevailing in the 1930s are the most commonly cited explanation for this export pessimism. This view was shared by policy-makers of newly independent states. They had experienced the consequences of the dramatic decline of world trade following the 1929 crisis: exports from tropical countries had been reduced to one-third in four years. They readily accepted the prescriptions of the development economists. Once the Korean war boom was over, leading economists foresaw a slackening of world trade and a return to secular growth trends. Global trade had expanded at one per cent per annum from 1910 to 1940 (Tuong and Yeats 1981) and the two decades after 1953 saw an increase of 8 per cent per annum and of 11 per cent for manufactures (Kaplinsky 1984).

This pessimism concerning trade was more than offset by optimism concerning domestic growth in the developing countries, which is partly explained by the success of the Marshall Plan in Europe: it took less than five years for the Europeans to renew economic growth, and some thought that the same economic recovery could be renewed in the developing countries.

Domestic growth optimism and export pessimism explain the inward-looking strategies advocated for industrialization. Import substitution as a strategy differs from the natural process of import substitution that takes place in any growing economy. As markets expand in such countries, thresholds at which domestic production becomes profitable are crossed, and industries come into being. This process has been described as "import swallowing" (Hirschmann 1958). Import substitution strategy aims at accelerating domestic production over and above this natural process (Hiemenz 1982). The initial import substitution strategy was externally enforced. For example, it was implemented in Latin America as a response to a sudden deprivation of imports as in the thirties or during the war, or as a response to growing balance-of-payment difficulties. Import substitution after the 1950s was more a result of deliberate economic policies (Schmitz 1984).

Unexpectedly, world trade went on growing for three decades whereas economic progress lagged in many countries. The overwhelming conclusion of

countries implementing import substitution was one of disenchantment (Schmitz 1984). Industrial development had not alleviated the unemployment problem and while the importation of consumer goods and some intermediary goods had been reduced, this had been achieved at the expense of increased imports; the manufacturing sector was also hardly a foreign exchange earner. Only a handful of countries took advantage of export opportunities, but their achievement was either ignored or looked down upon by dependentist economists whose approach had gained prominence in the 1960s. It then became clear that modernization processes had either failed or would take a longer time, and this disillusionment gave more audience to the "dependency school".

However, it needs to be pointed out that there are variations within the dependency school (Kubalkova and Cruickshank 1981). Dependency must be regarded as a method for viewing the world, a paradigm elaborated in the fifties. The path to dependency came from contrasting ideological schools, from structuralists such as Prebisch, or neo-Marxists such as Baran. Following the examples set by A.O. Hirschmann (Hirschmann 1981), one can dichotomize economic theories into those which profess optimism and those which profess pessimism with regard to the modernization process of developing countries. Early economic development theorists, liberal theorists and orthodox Marxists are optimistic, while neo-Marxists are not.

Gunther Frank (1971) and S. Amin (1971) have focused on the global accumulation process as the main determinant of underdevelopment. In the international division of labour, the periphery supplies raw material to the centre. The underdeveloped world was in a blocked development situation as a result of its orientation to the world market. "Development of under development", and "growth without development" became the labels used to characterize the dependency of the periphery, with limited hope of overcoming the situation: the only possibility was "de-linking" from the world economy, and there were very few examples, such as Albania, North Korea, and Kampuchea.

In the seventies, in the light of the quickening tempo of industrialization in some countries, the simple blockage version of the dependency theory fell short of the reality. This led to a new paradigm, the internationalization of capital, the origins of which could be traced back to Hobson, Lenin and Rosa Luxembourg. Acknowledging the industrialization of some countries at the periphery and their export orientation, authors began to stress the role of multinational corporations in shaping the new international division of labour. Pictures of the Rollei factory in Singapore made the cover of the German edition of Froebel's book (1979) on the international division of labour. This work and many others focused on the export processing zones (EPZ) and the dissemination of sweatshop industries around the world. Unfortunately, their emphasis on labour-intensive industries failed to take into account the evolution which was already taking place in both Korea and Singapore. In Korea, EPZ employment represented 3 per cent of total manufacturing employment and the building up of a capital-intensive industry was well under way. In Singapore, higher technology was already a priority, and Rollei went bankrupt shortly after the publication of Froebel's book.

Singapore and Korea remain complete paradoxes for dependency theorists. Multinational corporations play a minor role in the Korean economy; however, their importance is paramount in Singapore (Table 6). While foreign firms have been prominent in export manufacturing activities, the increasing importance of local firms in export industries should also be noted (Cheah 1980). They play an important role as subcontractors to foreign firms (Lim and Pang 1982). However, reliance on foreign investment is not equivalent to dependence. One should not underestimate the role of state intervention in the city-state. State enterprises are engaged in shipyards, iron and steel industries and through either Temasek Holdings or the Development Bank of Singapore, in high tech ventures. As Linda Lim wrote, "Singapore's spectacular success to date is the result more of the long arm of State than it is of the invisible hand of the free market" (Lim 1983).

TABLE 6
FOREIGN INVESTMENT'S ROLE IN MANUFACTURING

		Amount in US\$ billions	Share of manufactured exports in %
Singapore	(1984)	5.9	85 (1983)
South Korea	(1984)	1.2	31 (1974)

SOURCES: Singapore, Economic Development Board, various reports; *Economic Survey 1984* and *The Report on the Census of Industrial Production of 1983*. For Korea, *Financial Times*, 15 May 1985 (supplement on Korea); and Schitz 1984.

In Korea, the state's role has been decisive in the industrialization process; large enterprises such as the *chaebol* could not finance their tremendous growth without liberal credit facilities. The domestic banks were state-owned, and firms needed government approval to secure foreign loans. Thus, in the early seventies, the government controlled the allocation of more than two-thirds of the investable resources. Such a control has more in common with a socialist type of country than with a peripheral dependent state.

Typical of a refusal to acknowledge the reality was an article by A.G. Frank (1982) on the Asian NICs. He described industrial production in these countries as a "mere assembly process"; "even where the NICs produce end products such as shirts, radios or even cars they are simply increasing their dependent integration into a worldwide division of labour (. . .) in which they are allocated the least remunerative and technologically obsolete contribution".

Explanation of the NICs' phenomenon through a dependentist paradigm remains a challenge. As noted by R. Luedde-Neurath (1980) the manner in which dependency thinking has so far been applied to the Korean experience has not been particularly helpful to its understanding. Since the publication by Cardoso (1980) of the thirteen false theses in which he admitted that autonomous capitalist

development at the periphery could no longer be excluded from happening, the dependency school has been in turmoil.

In the traditional dependency point of view, the wages paid by the export-oriented sector were considered as a cost and not at all as a development factor: the wages did not meet their cost of living and the workers were supposed to be highly dependent upon the relations they had with the traditional sector. The growth of the domestic market in the NICs could not be explained by this highly simplistic model.

A new, Marxist inspired (Courlet 1985, Lipietz 1983), school of thought is putting more emphasis on the accumulation process at work in both the developed and the developing countries. Economies are distinguished according to the main feature of their regulation: in a "fordist" type of economy the production "intensity" (measured by the level of capital) is matched by the consumption "intensity" (measured by the relative importance of consumer durables); in a developing country, either the production or the consumption are "extensive". In a "fordist" type of economy, the growth of productivity is parallel to the growth of wages, while in a developing country it is higher.

In this framework, the NICs appear to be entering a "fordist" type of economy. This has been the case for some time in Singapore where the increase in productivity is parallel to the increase in wages; it is a new phenomenon in Korea and can be traced back to the late seventies, when the increased productivity was matched by an increase in wages.

TABLE 7
PERCENTAGE OF GROWTH

	<i>Singapore</i>		<i>Korea</i>	
	<i>wages</i>	<i>value-added</i>	<i>wages</i>	<i>value-added</i>
1961/74	1.1	2.0	6.6	12.5
1974/83	6.5	4.5	8.8	11.7

SOURCES: Compiled from Korean and Singaporean statistics.

This new paradigm tries to take into account evolutions which appeared "unconventional" in the dependency model. However, the "trade economists" claim that such an evolution was quite predictable in countries implementing the "right economic policy".

Exports of manufactured products by developing countries came to be analysed in the early seventies. G.K. Helleiner wrote a leading article on that subject (1973) and his views give some credit to the statements made by dependentists. He pointed out that these exports concerned mainly foot-loose industries in which the wage differential explained competitiveness. He labelled most of these exports as intra-firm trade, and forethought that such a phenomenon would be generalized

among developing countries. Lower transport costs would ensure that export processing zones in Asia would compete with future exports from Africa.

Things did not go that way. Manufactured exports from developing countries did generalize but they remained highly concentrated; in 1982 half of the total came from the four Asian NICs. In the analysis, more credit was attributed to indigenous factors and less emphasis was given to the dynamism of foreign partners in explaining the economic development of the NICs. The success of export promotion pursued by the NICs has spawned considerable literature based on two sizable research projects conducted in the mid-seventies: one on foreign trade regimes and economic development, sponsored by the National Bureau of Economic Research (NBER) (Krueger et al. 1981); the other by the World Bank (Balassa 1982). If the development of these countries is to be put forward as a model, one must stress the "factors of transferability" to other countries. Trade policies were considered a main pillar of the new economic policy advocated.

According to Krueger (1980b), in its present state, trade policy provides little guidance to its role and strategy in promoting growth. The empirical evidence overwhelmingly indicates that there are important links between them. A number of hypotheses as to the reasons for these links have been put forward but there is not as yet sufficient evidence to estimate their relative importance. Two major analytical tools have been designed to measure the impact of trade policies, and their origins can be traced back to project analysis literature:

- Effective rate of protection (ERP) is an attempt to measure the general equilibrium effects of a country's whole system of trade restriction on value-added. It is basically an estimate of the percentage by which value-added in a particular industry exceeds value-added measured at international prices in the same activity.
- Domestic resource cost differs slightly from the shadow price of foreign exchange in that it uses conventional depreciation allowances rather than discounted flows and present value. It can be taken as a rudimentary measure of where comparative advantage lies.

In the NBER study, industrial strategies were classified as import substitution and export promotion. The first inevitably entails trade intervention to protect the domestic market, while the second involves an open trade policy. Under an export promotion strategy, export industries grow faster as do import substituting industries under an import substitution strategy. As can be expected from a straightforward interpretation of the two factors, the Hoescher Ohlin model of trade and employment per unit of output will be greater in export industries. Reviewing the Korean (Hong 1981) experience, the NBER study showed that since 1960 there were no across-the-board incentives for import substituting industries while all lines of export activities were encouraged. The average level of protection was very low compared to other developing countries. However, the ERP on import industries was as high as 92 per cent, while that on export industries and non-competitive industries was minus 10 per cent.

Bela Balassa's study endeavours to quantify the systems of incentives

applied in six semi-industrial developing countries, and to indicate the effects of these systems on resource allocations, international trade and economic growth. It showed that among manufacturing activities there was a strong bias against exports in favour of domestic sales in every country except Singapore, Korea and Taiwan; in the latter two countries the incentive systems slightly favoured exports over domestic sales. All in all, the incentive systems in these three countries appear to have discriminated least between non-traditional primary and manufacturing activities, and between sales in export and domestic markets.

Later, Bela Balassa (1981) generalized his findings and proposed an approach to the stages of industrial growth. At first, manufacturing growth takes place through the gradual expansion of domestic demand, which is fuelled by the growth of the primary sector. At this stage, transport costs and some mild protection are sufficient; the main activities consist largely of assembling, finishing, and repacking imported semi-finished products. The economy will then face a situation in which the growth of sectors producing simple manufactures stagnate because of the saturation of domestic demand. Once it has reached this stage, the country is confronted with a choice of strategy:

- it may choose to pursue an inward looking strategy and initiate a second import substitution scheme with a gradual deepening of the production process towards intermediary products, such as steel and petrochemicals. The less than optimum size of these activities will necessitate a high level of protection and the industrial structure will age prematurely,
- or it may choose an outward looking strategy giving equal incentives to domestic sales and export-oriented industries.

It cannot be denied that the export promotion strategy has promoted industrial growth in the East Asian countries. There is a general consensus that the import substituting strategy led to disappointing results: once tariff protection was granted, the levels were not later reduced and the protection, usually conceived as a temporary measure, became a permanent feature. However, emphasis on export promotion strategy tends to dichotomize export promotion and import substitution as if they were mutually exclusive types of development. The stage approach of industrial development is but a "caricature" of Latin American and East Asian experiences. In Latin American countries, there was hardly any choice when most of these countries were confronted with the consequences of the Great Crisis which provoked a catastrophic downfall of their export revenues. After World War II, most of the economists were pessimistic on the future of world trade and an import substitution strategy was pursued. Concerning East Asia, and the Korean experience, this presentation focuses on the sixties. However, the emphasis on labour-intensive exports did not last. The second phase of the import-substitution strategy began in the early sixties (fertilizer production) and was actively promoted in the late sixties when the decision was taken to build an integrated steel complex at Pohang. The World Bank strongly opposed this project. Clearly, at that time, Korea had hardly any comparative advantage in this industry. Steel exports now

rank fourth in Korean exports and the Pohang steel mill is said to be the second largest in the world, next to Nippon Steel. At the same time, Korea launched its shipbuilding industry, making its first steps into an activity in which the Japanese already had half of the world market. Such an investment had to be backed up by government guarantees and subsidies. Now Korea ranks second to Japan in shipbuilding, and ship exports, in terms of revenues, rank second behind textiles.

As shown by Krueger (1981) employment effects of export promotion and import substitution strategies have become approximately equal since the late sixties; because of extensive capital subsidization manufactured exports had not been creating as much employment as they would otherwise have. One might question whether Korea would have expanded its exports and GNP if it had insisted upon using less capital-intensive production techniques.

Moreover, the empirical study of the South Korean case raises some questions which are not readily answered by the prevailing view of trade economists (Fransman 1984). As noted by H. Schmitz (1983), it is quite surprising that few observers have paused to ask why the package of export-oriented policies appeared to work instantly. Looking more closely at the monthly index of industrial production and export, one finds that the trend was on the rise even before the implementation of the new policy.¹ The export incentives had accelerated a movement which was already under way. The EPR measurement for 1978 showed that on average it had remained very low (5.3 per cent). However, this aggregate figure concealed wide variations: among the heavy manufacturing sector one could find non-durable consumer goods (32 per cent), machinery (47 per cent) and transport equipment (135 per cent). This last figure is quite puzzling considering that South Korea has become the second largest ship exporter in the world and is rapidly emerging as a new world power in the car industry. Protection has not been detrimental to export competitiveness in these sectors.

As pointed out by Turner (1982) export incentives alone do not explain the unusual performances of the Asian NICs; it is the commitment by the government to the export promotion strategy which makes it necessary to liberalize import and export controls, adjust the exchange rates and provide export subsidies. What seems unique to the Asian NICs is a public policy commitment to export promotion which entails a holistic and internally consistent shift in the entire range of relevant foreign economic policies. This uniqueness is in itself a question. The success stories of these four countries are used by trade economists to propagate export promotion as the key to economic success. Hence, trade economists enter development economics with three propositions: that a poor country with abundant labour could overcome most of its problems by selling abroad labour-intensive products, that there exists trade regimes which could ensure this and that the South Koreans and the Singaporeans had done this successfully and others could do likewise. However, as Streeten (1983) has written recently, "the singling out of export promotion through liberal trade policy is a false account of these success stories".

Beyond Economics

In order to single out the domestic factors contributing to the exceptional industrial development that has taken place in the Asian NICs one has to go beyond the socio-economic background and take into account their historical roots and their cultural environment; it is difficult to say anything quantifiable on these subjects, and this explains the tendency to forget them.

Political factors cannot be neglected. Studying the failure of Colombian garment exports, Morawetz (1980) questioned: "How is it that producers of textiles in Colombia are able to charge domestic garment manufacturers 50 to 100 per cent more than they charge foreigners for the same fabrics, seriously damaging the nation's clothing export in the process? The answer was that they were all protected against competition from importations, and behind this economic reason, the most fundamental reason lies in economic and political power. No Colombian government has been able to challenge the political power of the textile tight oligopoly". Neither Korea nor Singapore can be regarded as a "soft state" like Colombia. In South Korea, one does not find extra-government forces such as wealthy families and multinational enterprises controlling the government (Enos 1984). The land reforms have been a striking example of the state's power: they have severely restricted the size of family landholdings, and have discouraged reinvestment in traditional agricultural activities. Similarly, the Park government in South Korea has been able to successfully challenge the power of the "Four White", import substituting firms whose economic power rests on their capacity to produce and market cotton, sugar, flour, and cement.

Unable to promote the diversification of Singaporean capital away from entrepôt activities to manufacturing, the Singapore Government has relied heavily on foreign enterprises in its industrialization programme. However, these firms did not have their say in the launching of the Industrial Revolution in 1979, nor the decision to cancel the advantages enjoyed by car assembly firms in 1980.

In sharp contrast to the highly organized status of labour movements in major Latin American countries, labour union activities aimed at raising wages have traditionally been frowned upon in the Asian NICs by the relatively monolithic political systems and discouraged by the traditional patterns of human relations.

History is an "objective" factor which is usually ignored. However, it is hard to deny the importance of recent history in explaining the Asian NICs' success. All four countries have, at one time or another, been obliged to fight to survive. Looking further back, we see that Korea had experienced quite a dynamic "industrial past", and was characterized by a high degree of openness (import + export/GNP = 40 per cent). L.G. Reynolds (1980) has suggested a historical explanation for the East Asian successes: the "head-start hypothesis", stating that in these countries growth was already under way before 1945. One cannot ignore the fact that Korea had a relatively long industrial experience, whilst Singapore did not experience this maturation period.

In the fifties, one used to state that Confucianism was an obstacle to development but thirty years later the Asian NICs' success has partly been attributed to Confucian ethics (Hofheinz and Calder 1982). However, failure to understand the real impact of culture on development should not allow one to ignore it. In his work on Colombia, Morawetz (1980) has tried to assess the importance of cultural differences, to explain the rapid rise of Asian garment exports compared to the rise and decline of Colombian garment exports. According to Morawetz, cultural traditions (respect of authority, tradition of work organization, societal training in manual dexterity . . .) have a tremendous impact on labour productivity, quality control and punctual delivery; these factors are the most important non-price reasons which explain the success of Asian exports over Colombia's.

The discussion about the more relevant factors in explaining the industrial dynamism of Korea and Singapore is not only of academic interest. The NICs are looked on as economic models by many developing countries in Southeast Asia (Malaysia's "Look-East Policy" concerns Japan as well as Korea) and elsewhere, and their economic policies are advocated to justify industrial adjustment programmes.

Beyond the relative importance of these domestic factors, "it is essential to recognize the inherent limits to the generalization to other developing countries of the export success of the Asian NICs" (Kaplinsky 1984). A generalization of this model was worked by Cline (1982) who measured that if the product composition was held the same as in the base period (1976) several sectors showed imports from developing countries in excess of the entire domestic market. The NIC model seems hardly relevant to the new international context of rising protectionism. The emergence of new NICs is highly improbable in the near future if one associates NICs with manufacturing exporters. However, the maturation of industrial structures in other countries may give ground to new emergences.

NOTES

1. The monthly economic indicators of the Bank of Korea published by the different issues of the *Far Eastern Economic Review* from 1960 to 1965 show that the export growth trend began in early 1962, that is, before the implementation of the export-oriented policy package.

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DOCUMENTATION

Shultz's Statement at the ASEAN, EEC, Australia, Canada, Japan, New Zealand, and U.S. Meeting, in Kuala Lumpur, 11 July 1985.

The following is the text of the opening statement by U.S. Secretary of State George Shultz at the meeting of foreign ministers of the six ASEAN countries and their counterparts from Australia, Canada, Japan, New Zealand, and the European Community, held on 11 July 1985 in Kuala Lumpur, Malaysia.

Thank you, Mr Chairman. First, I'd like to join my colleagues in thanking you for the wonderful hospitality extended to us, for the fine organization of this meeting, and for the general ambiance that Malaysia is providing us here. And also, I would like to join them in expressing my admiration and appreciation for the ASEAN countries and the ASEAN organization. You have created something unique and important in the world, and it does provide for us, your dialogue partners, a chance to come here to meet with you in an organized and systematic way and, among other things, to reflect on developments in the Asia-Pacific basin, as well as the direct matters concerning our countries and the ASEAN countries, as such.

As the final speaker here, I find that practically everything that I might have said has been said, and so I don't want to just reiterate what others have very well put forward. But I do take note of the fact that there is virtually a consensus of views about what are the important things to focus on here and, in a broad way, what the direction of our efforts should be. So that as we proceed in our discussion, we don't need to argue about broad objectives, but we need to get down into operational details of exactly what can be done to make headway on the issues that have been highlighted. Just to go through them very briefly.

Of course, of central concern, as everyone has addressed here, are the issues presented by Vietnam's occupation of Cambodia. We join you and others in rejecting that occupation, in supporting the Democratic opposition in all ways that we can, in recognizing the importance of maintaining not only the strength of purpose there but the willingness to have a negotiated outcome, if such an outcome can be found that meets the terms that have been put forward — namely, Vietnam leaving Cambodia; the emergence of some process by which the people of Cambodia select the government of their own choosing and through which those who have been displaced from that country have an opportunity to return with safety and honor to their own country.

In the end, it seems to me that there must come a point where the government of Vietnam and the people of Vietnam reflect on what they are doing to themselves, let alone to others. And the fact of the matter is that the Vietnam economy, the Vietnam standard of life, has stagnated these many years. While all around them, they must observe economies that are progressing and progressing rapidly and leaving them far behind. Their self-imposed isolation is imposing deprivation on their own people, and from that standpoint, they have much to gain by rejoining the international community in a proper way.

Of course, the Cambodian tragedy has brought forward many refugees and displaced

persons. Speaking from the standpoint of the United States, we have and will continue to work strongly with you to help deal with these problems. We have taken something like 750,000 refugees during the course of this program, including around 50,000 this year. Like all of you, we would hope that conditions could stabilize so that we wouldn't have continuing refugee problems. But in the meantime, we pledge to work with you and continue our part in this important program.

Each speaker has highlighted the drug problems, and we certainly feel them in the United States and admire the ASEAN initiative that has been referred to and look forward to detailed discussions here and elsewhere on these problems. I sense that there has been some turn in this in the United States, particularly, as the result of the involvement of Nancy Reagan, the President's wife, who has taken a very strong interest and somehow has been generating an important shift in attitudes toward the consumption of drugs. And we have noticed that as the first ladies of countries around the world take more and more interest in this — and the first lady of Malaysia came to a meeting in Washington and has worked effectively here — that in many ways this may be an important avenue into turning people to attack this problem and really do something about it. But at any rate, I agree with the thrust here — of the importance of this problem.

As is also true with the problem of terrorism. It is an international, worldwide phenomenon, and I think (Canadian Foreign) Secretary Clark's outline of the various places where even recently we have seen terrorist tragedy strike serves to make that point. We will look forward in this discussion to giving our views from the standpoint of the United States as to what should be done about it. But certainly we do have to recognize that it is a major problem, that there are international links involved, and there are states in this world that support terrorism — you have to look that reality in the face — and also that there is a link between drug trafficking and terrorism in which the drug trafficking provides a lot of the money and the terrorists provide some muscle. So, that joins those two problems together.

Finally, I would just comment briefly on the subject of international trade and the international economy — obviously something of great importance to all of us. The United States is an important trading partner to every country represented in this room. I would say that no country suffered more than the United States from the outbreak of protectionism which rolled through the world in the 1930s. No country has benefited more than the United States by the emergence of a more and more open trading system in the years following World War II. I hope we don't have to learn that lesson over again. So it is extremely important for us to work on this problem of maintaining open markets. I speak as a country that has a deficit in our trade as a result of the huge amount of imports that come into the United States — that is, a deficit of record proportions. And so we feel all of the political repercussions that come from the fact that we are inundated with imports and find ourselves restricted in our capacity to export.

I think there are some deep-lying causes for some of these developments, and the trade regime is an extremely important part of it but not the only reason for this big deficit. But work on the trade regime is essential; I don't think there is the slightest doubt about it. As I think Mr Clark said, if we don't have a new round started and working so that the effort to open markets further stands at the center of attention, then what will happen is that the efforts of those who want to close markets will stand at the center of attention. It won't be possible to clean up what's left over of the Tokyo Round or do other things that we want to do, we will be so busy fighting protection. So, I think the start of a new round is essential, and there are things that we can do about it, particularly, perhaps right here.

There were meetings in Geneva earlier this week to approve the preparatory session

which is more or less scheduled, I think, for September. That conference failed to achieve the unanimity necessary. I believe the two countries that continue to have their reservations, and at this point are blocking progress, are India and Brazil. It seems to me in our various ways we ought to be in touch with them, and promptly, to see if their minds can't be changed on this important subject. There is a meeting of GATT on 16 and 17 July, I think it is, and that presumably is a decisive meeting as far as the preparatory work is concerned. So, there is a little time here, and I think that it's important to turn this around and have this show get on the road and move. Certainly, the United States strongly supports such an effort.

Well, I look forward very much to my time here, and the time of my delegation here, and to exploring this vast range of important issues with you individually and collectively. Thank you, Mr. Chairman.

SOURCE: United States Information Service, Singapore.

BOOK REVIEW

State Enterprise in Singapore: Legal Importation and Development. By Philip N. Pillai. Singapore: Singapore University Press, 1983, Pp. 220.

This book examines the structures of state enterprises in Singapore and argues that the eventual performance of such enterprises is closely related to the legal and political cultures of Singapore and the administrative infrastructure which fosters these enterprises. The book is based on the doctoral dissertation of the author, a member of the Law Faculty at the National University of Singapore. Three case studies are utilized to clarify the issues and support the arguments. These are: a) the Economic Development Board, a statutory corporation; b) the Development Bank of Singapore, a mixed enterprise company; and c) the Singapore Bus Service Ltd, a company reflecting the private-sector/public management mix.

The book has five chapters. Chapter I, entitled "State Enterprise and Legal Importation and Development" establishes the theoretical base for the subsequent chapters. Here, the author suggests that rationales for particular institutional structures can be understood in the context of particular "legal infrastructures" of individual societies, and elements of such infrastructure include "the political system and people's expectations, ideology, the relationship of the bureaucracy to the political leadership, its socialization, internal and external pressure points, and corrective procedures" (p. 9). Chapter II, "The Process of Legal Importation", touches on two elements. The first suggests that the adoption of the state-enterprise form is a reflection of the country's social and economic objectives since independence and the fact that a "half socialist, half capitalist" approach would result in the distribution of "benefits of industrial activity in Singapore in a much fairer way" (p. 32). The second has worked to ensure that state enterprise does not spread to sectors where it would not serve any national objective or where it could not be properly managed. Chapter III, "Comparative Theory, Context and Experience of State Enterprise Law in Britain and Singapore" is a discussion of the process of adoption and adaptation of the British experience to the Singapore situation appropriate to the local needs and priorities. While some state enterprises such as in public utilities, telecommunications and port operations are simply continuations from the colonial days, other enterprises were created in order to perform specific socio-economic objectives such as public housing, mobilization of savings, and investment promotion. The principal trend has been to maintain "purely governmental and regulatory functions within the department forms and to divest all other state enterprise to public corporations and companies" (p. 73). The chapter goes on to explore the issues affecting the structure and control of state enterprise and suggests that considerable power rests with the appropriate minister as opposed to the Parliament. Indeed, the author suggests that "Parliament's control over state-owned companies is weakest" (p. 18). In addition, "judicial control over public corporations is weakest when

compared to ministerial and legislative control" (p. 111). One particular aspect of Chapter III is a comparative evaluation of the nature of control affecting the activities of public corporations (100% government owned) and commercial corporations (those with significant government investment).

In Chapter IV the three case studies are presented. The structure of a public corporation such as the Economic Development Board has been influenced by the British model while the control systems that have been set up are more reflective of the administrative capability residing within the civil service. The structural options are wider in the case of a commercial corporation as they are drawn from the "private law form of the public company" with modifications sufficient to "entrench government ownership and control." Governmental control is indirect through its civil service nominees on the board. The case of the Singapore Bus Service reflects an unusual model of state enterprise. Here, state ownership is absent but there has been appropriate enactments by legal means to achieve wider social goals. Although private shareholders continue to reap the rewards of their investment in the enterprise, they have been "deprived of an ordinary facet of corporate ownership of free voting of the board of directors" (p. 191).

The final chapter lists the major conclusions. The key words are "wider political and legal system". Thus, even though state enterprises in Singapore initially started from their "British baseline", they have been substantially modified with respect to their structures and control mechanisms in order to reflect the realities of the wider political and legal system. As a result, unlike in Britain where state enterprises are constantly under parliamentary scrutiny, the Singapore Parliament is noted for its low profile and this itself is uniquely Singaporean. The other significant feature of the state enterprise legal system in Singapore is the almost total eclipse in the invocation of judicial powers to aid or challenge state enterprise activity" (p. 210).

The book, although written from the perspectives of law-making and legal systems, deals with a number of other issues associated with the subject of state enterprise. Although the processes may vary, state enterprises in most non-socialist countries are justified on both economic and social grounds. In that sense, Singapore's deference to a "wider political and legal system" as opposed to established legal precedents is really not that unique. What is unique about Singapore is the built-in confidence in its civil servants to remain "non-politicized" and as much, maintain high standards of performance whose monitoring would, in other countries, be left to their parliamentarians. While in other countries this might be termed as absence of public scrutiny, the Singaporean model assumes that any failing on the part of one group of state enterprise managers can be better dealt with by another group of civil servants (residing within the Attorney-General's Department, Auditor-General's Department, for example) than by a committee of law-makers who would be unlikely to possess either specialized skills or necessary resources to assume that role. Of course, one may argue this point, particularly if one takes the perspective of a mature democracy in a more economically developed society. But the author's point is that Singapore has neither of those characteristics, and therefore, had to assign a lesser role to parliamentarians in effecting satisfactory performances by state enterprises. The author is also right in identifying the uniqueness of "state enterprise without ownership" (the Singapore Bus Service case) as a Singaporean solution to a Singaporean problem. It is doubtful if the model of "equity participation without managerial control" would survive legal test or find private enterprise acceptability in other countries.

Any discussion of state enterprises cannot be complete without an assessment of the impact on the private sector. The book deals with it only incidentally (pp. 106-7). It is

evident that the government has sought to quieten the worries of the private sector about the growth of state enterprises in two ways: firstly, by co-opting private-sector representatives (including those of the foreign-owned companies) into the boards of state enterprises (as in the case of the Development Bank of Singapore), and secondly, by judiciously resisting the temptation to nationalize (as in the case of the Singapore Bus Service) where the nationalization decision could have adverse fall-outs. The author may have been too quick to predict that the case for privatization was "unlikely to find expression in Singapore in the near future". The Budget statement of March 1985 suggests at least a modest move towards privatization. But that perhaps is also a reflection of the performance of state enterprises in the Singaporean model. The wider socio-economic goals behind the establishment of a number of state enterprises have been realized, making it no longer necessary to maintain state ownership or effective control of such enterprises. If this is indeed a reflection of the performance of the Singaporean model, then other nations should find it quite useful to consider emulating or adopting. Perhaps other variations of the Singapore model could develop, after appropriate adaptations for local circumstances.

The book is well written and presents a good basis for further studies on a number of contemporary issues affecting state enterprises. This reviewer recommends it highly to all who have an interest in the subject.

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Monetary Policies and Financial Structures in ASEAN*

AMINA TYABJI

Introduction

It is generally recognized that economic development is not only accelerated but also facilitated by an appropriately developed financial system, that is, the structure of financial institutions, instruments and interest rates. Indeed, Schumpeter assigns a dynamic and catalytic role to the banking system in promoting economic development in line with his concept of new men and new firms as part of the capitalist-engine of growth. There is wide acceptance too that the financial system can make a valuable contribution to resource mobilization and allocation and should be included as an important element in overall development policy, but as McKinnon rightly remarks "regulation rather than development is the usual emphasis".¹

One of the objectives of resource mobilization is to increase the rate of aggregate saving and to improve its allocation. The need to increase domestic saving is particularly urgent in most of the countries of the Association of Southeast Asian Nations (ASEAN)² for a number of reasons: heavy dependence on foreign savings, more difficult access to this saving in the future, as well as rising costs. Institutionalization of domestic saving, especially household saving, is thus crucial to its rapid growth. This process can generally be assisted by an integrated and efficient financial system and appropriate monetary policies.

There are unfortunately no data on the sectoral composition of private saving in ASEAN.³ However, given the countries' level of economic development and structure, with a preponderance of small enterprises in both the rural and urban sectors, the corporate share cannot be expected to be large except in Singapore and Malaysia. What is necessary, therefore, is the mobilization of the larger, non-corporate share through the financial system.

Available data on aggregate saving and investment and related indicators are presented in Table 1. There is, as expected, wide variation in the region's domestic savings-GDP (gross domestic product) and capital formation-GDP ratios. Only for Malaysia and Singapore do they compare favourably with 1970; for the other three countries there is some deterioration and, therefore, cause for concern. For example, the savings-GDP ratio in the Philippines in 1983 at 21.3 per cent is not only lower than the 1980 level of 25.1 per cent but also currently the same as its 1970 level. The capital formation-GDP ratio has shown a similar decline from 31.2 per cent in 1975, to 26.7 per cent in 1983. Owing to the present economic

TABLE 1
GDP, DOMESTIC SAVING, CAPITAL FORMATION AND INFLATION IN ASEAN

	Per Capita GNP US\$	Growth Rate of Real GDP	Domestic Saving		Capital Formation		Average Annual Rate of Inflation	
			1970	1982	1970	1982	1960-70	1970-82
Indonesia	580	7.4 ¹	21.0 ²	18.7	20.3 ²	22.6	...	19.9
Malaysia	1840	7.5	20.2 ²	25.7	23.4 ²	34.1	-0.3	7.2
Philippines	820	5.3	21.9	22.5	31.2	28.5	5.8	12.8
Singapore	5900	9.0 ¹	20.6	41.0	38.7	46.1	1.1	5.4
Thailand	800	6.6	22.3	18.4	26.2	21.0	1.8	9.7

¹ 1971-82² 1975SOURCE: Asian Development Bank (ADB), *Key Indicators of Developing Member Countries of the ADB*, April 1984.

difficulties, the situation for at least 1985 and the following year cannot be expected to improve. A broadly similar situation is observed for Thailand; here the savings-GDP ratio has declined from 22.3 per cent in 1970 to 18.0 per cent in 1983; and the capital formation-GDP ratio from 26.2 per cent in 1970 to 22.9 per cent in 1983.⁴

Empirical evidence suggests that while savings are positively related to real income growth, political security, positive real rates of return (which make interest-bearing financial assets attractive outlets for wealth holders), and improved financial intermediation whether in the form of incentives or institutions may be important contributory factors. For example, Mikesell and Zinser in their review of the theoretical and empirical studies of LDCs' savings behaviour observe that measured savings are responsive to changes in the real rate of interest.⁵ They caution, however, that in seeking to determine the explanatory power of particular variables relating to saving, the problem of collinearity must be recognized. Fry in his study of saving in Asian LDCs (which includes the ASEAN five) examines the effect of two financial variables, among others, on the aggregate saving rate.⁶ He reports that the effect on saving while statistically important is not large enough to warrant substantial policy significance. His conclusion with respect to the second financial variable, proximity of branches of depository institutions in rural areas, is more or less similar. However, his results indicate that the influence of the real interest rate on *financial* saving is greater than that on national saving.

In the process of economic development, an increasingly larger part of saving is observed to take the form of financial claims in the banks and non-bank financial intermediaries (NBFIs). This paper is concerned with monetary policies and financial structures in ASEAN, particularly, the role of financial institutions in resource mobilization. It begins by examining the role of central banks in the development process before proceeding to financial deepening and financial structures in the region. As the latter is directly or indirectly a function of monetary policies, those relevant to this paper are discussed. The final part contains some concluding remarks.

Role of Central Banks

Economic performance in ASEAN is generally export-led. This, on the one hand, is dependent on a liberal regime of trade and payments and, on the other, a low rate of inflation or a stable monetary environment. Monetary management is the traditional task of central banks. Generally, countries that have prospered are those with good track records in maintaining internal and external balance and a basic commitment to maintain that balance. And central banks that have used their powers to effectively discharge traditional functions have made a fundamental contribution to development.

In the LDCs, however, central banks need also to assume a development role because of the embryonic state of the financial system. These two roles are not mutually exclusive but rather interdependent, since an integrated financial system

is necessary to support central banking functions. Monetary policy can hardly be expected to operate adequately in a financial (in terms of institutions, markets and instruments) vacuum.

As a first step in the financial deepening process central banks need to evolve sound financial structures in order to enhance public confidence in the use of money and money substitutes as a form of saving. In their institution-building task what is usually stressed is the supervisory power of central banks; such supervision, at least in ASEAN, is accorded not only to commercial banks but usually also to most other non-bank financial intermediaries either directly or indirectly. It takes the form of inspection, capital requirements and other statutory (cash and liquid assets ratios) requirements both for the protection of depositors and for the pursuit of monetary policies. This is necessary also to prevent the disruptive effects (external diseconomies) of runs on financial institutions.

It is interesting to observe that in recent years such prudent supervision is increasing even in a traditionally relatively unsupervised financial scene such as the United Kingdom, where it is deemed necessary because of the growth of banks and other Euro-currency institutions, and as an aftermath of the serious losses experienced in 1974.⁷ Additionally, the Bank of England has demanded from all overseas banks with wholly owned subsidiaries in London, or even those with significant equity in joint-venture banks there, "an acknowledgement of their moral responsibility to support those banks in any difficulties".⁸

Viewed both in the light of the above and in the context of the international debt crisis, recent changes in financial regulations in Singapore⁹ cannot be regarded as restrictive. They are in conformity with the Basle Concordat which deems stricter supervision to be necessary. In fact, the world's major financial centres moved towards tighter banking regulations in 1984.

Soundness in financial activities is obviously a necessary condition for financial development. Finance is after all the lubricant for self-sustained growth. As is well known, monetary stability may be upset not only by monetary activities but also by fiscal activities, which may cause loss of control over the monetary base. But this has not been a significant problem in ASEAN since the mid-1960s.

Financial Deepening and Financial Structures

The case for financial deepening hinges on the fact that intermediation yields positive benefits to both savers and investors by allowing the transfer of command over resources from surplus to deficit units. This deepening at an aggregate level is represented by Goldsmith's well-known financial interrelations ratio (FIR), that is, the ratio of financial assets to total assets (or usually its proxy, gross national product or GNP). Generally, the FIR is observed to increase with economic development; the higher its value, the greater the financial development. While useful, its computation makes heavy demands on data which in ASEAN as in other LDCs are at best scarce. The FIR, as noted, is highly aggregative thus masking differences in financial structures. Other simpler measures of financial deepening

are more useful for an additional significant reason. In the LDCs including ASEAN, the lower level of per capita income and preponderance of small enterprises (that is, the non-corporate form of business organization) means that open markets for primary securities are unlikely to be important. This implies that the burden of financial intermediation falls to a much greater extent on the banking system. The measures selected to portray financial deepening in ASEAN directly involve the banking system; these are presented in Table 2.

Financial development can be viewed by tracing the evolution over time of relevant financial ratios. As is evident from the data, a fairly significant amount of financial deepening has taken place in ASEAN, with the most rapid changes taking place in Indonesia, but some elements of financial stagnation are evident in the Philippines. It should be noted, however, that changes indicated by the data may simply reflect a shift of activity between the so-called formal and informal financial sectors.

With reference to the table, ASEAN's currency to M_1 ratios are high when compared to those in the more developed economies. They indicate a high preference for currency relative to demand deposits. Changes in this ratio are steepest for Indonesia and for Malaysia, indicating growth of the modern sector and of the banking habit.

Relative to its level of economic and financial development, Singapore's currency to M_1 ratio (and M_1 to GNP ratio) is unusually high. A number of reasons may be attributed to this. The remarkable growth of the Post Office Savings Bank's deposits has probably bypassed the personal checking phase of finance in this country. The use of credit cards, introduced only fairly recently, is not widespread. Singapore has a large influx of tourists who mainly use cash as a means of payment as opposed to credit cards. This is especially true for tourists from neighbouring Southeast Asia and South Asia, where the use of the credit card is even less prevalent. Singapore's strong, stable and fully convertible currency is, additionally, a convenient store of value for neighbouring countries and its interchangeability arrangements with Brunei, ASEAN's newest member, is another partial explanatory factor.

The other point of interest is the M_2 to GNP ratio, which has increased rapidly in all the ASEAN countries except the Philippines. This is in line with evidence elsewhere, and reflects the fact that with the evolution of financial institutions, the household or surplus sector shows a marked preference, as a first step, for holding assets in the form of commercial-bank time and savings deposits. Preference here appears to be a function of low transaction costs, liquidity and attractive real rates of return (including fiscal incentives), that is, returns comparable to previously held (real) assets less the risk premium. Time and savings deposits of commercial banks are well suited to satisfy holder preferences in this regard, once confidence in the banking system has been established. The 1982 ratio for Singapore is the highest partly as a result of the inclusion of foreign currency deposits of residents (ACU). The other more important factor is its much higher per capita income.

TABLE 2
SELECTED RATIOS OF FINANCIAL DEEPENING IN ASEAN

	Indonesia			Malaysia			Philippines			Singapore			Thailand		
	1970	1975	1982	1966	1975	1982	1966	1975	1982	1966 ^a	1975	1982	1966	1975	1982
Currency															
M ₁	0.62	0.51	0.41	0.56	0.51	0.46	0.56	0.46	0.54	0.50	0.47	0.49	0.64	0.64	0.69
Currency															
GNP	0.05	0.06	0.06	0.10	0.10	0.10	0.06	0.04	0.04	0.15	0.12	0.15	0.09	0.07	0.06
M ₁ ^b															
GNP	0.08	0.11	0.15	0.18	0.20	0.21	0.11	0.09	0.07	0.30	0.26	0.31	0.14	0.12	0.09
M ₂ ^c															
GNP	0.11	0.18	0.25	0.30	0.46	0.65	0.22	0.17	0.23	0.57	0.61	0.86	0.25	0.35	0.63
M ₂															
M ₁	1.32	1.59	1.72	1.64	2.30	3.01	2.05	1.87	3.35	1.88	2.35	2.80	1.74	2.97	4.63
Persons per	134	151	149	35	30	23	91 ^d	44	28	12 ^c	9	7	64	46	30
Banking Office															
(000)															

a. Denominator is GDP.

b. M_1 is defined as currency outside banks and private-sector demand deposits.

c. M_2 is defined as Time and Savings deposits, and foreign currency deposits of residents in deposit money banks.

d. 1964

e. 1970

SOURCE: Calculated from data in International Monetary Fund (IMF), *International Financial Statistics Yearbook 1983* (Washington, D.C., 1983), and country sources.

As a second step, asset holders include in their portfolios financial claims on NBFIs, including provident and pension funds and stocks and bonds. However, non-availability of comparable data has prevented the compilation of other ratios. Suffice it to note that even though commercial banks remain the dominant financial institutions in ASEAN, the growth of NBFIs has been fairly rapid, especially in Singapore and Malaysia.

On a regional level, the factors contributing to the deepening process include the following: the region's high real rate of growth, generally positive real returns on savings, including fiscal incentives to induce savings, a fairly good record of price stability, the growth of existing and the creation of new financial institutions, frequently as a deliberate policy measure by central banks. Additionally, as noted, the ASEAN countries as a group have pursued fairly conservative fiscal policies and have not used the financial system to fund government deficits to any significant extent. In turn, this has contributed towards price stability, although of course, the record is not the same for all the countries in the group. Nevertheless, the development of financial institutions is heavily dependent on the maintenance of price stability. This is clearly illustrated by Indonesia's experience of hyperinflation during the 1960s and the financial stagnation in the Philippines at the present time.

As the selected measures of financial deepening in Table 2 indicate, individual country performance shows significant differences, in terms of both the level and rate of change. Thus, it is useful to present thumbnail sketches of financial development (that is, in terms of institutions) in individual countries.

Indonesia. During the Soekarno era, there was the central bank (with commercial banking functions), five large nationalized (state) commercial banks, a state investment bank, a large number of small private domestic banks and four foreign banks. There was even a small stock exchange with trading in foreign shares. The government also issued a number of bonds.¹⁰ This small financial base was almost completely annihilated by hyperinflation during that period. Only the state banks, merged into an administrative unit, continued to nominally function.

Under the Suharto regime, the first task of the authorities was the restoration of price stability, which was achieved through stringent monetary and fiscal policies. The second was to create a banking system to mobilize financial resources for economic development. As a start, the central bank ceased its commercial banking role after 1968. The state banks, subsidized in a variety of ways by the central bank, and with an expanding branch network became the dominant financial institutions. Private domestic and foreign banks also made their reappearance. The year 1972 saw the establishment of NBFIs, including specialized credit institutions, with the expressed intention of mobilizing longer-term domestic and foreign funds for loan to the business sector. There is now a small interbank money market, but transactions are confined to the extremely short end of the market. In 1977, the stock exchange was revived but can hardly be considered to be an effective institution.

Apart from these institutional changes, 1968 saw the introduction of time deposits with interest rates (administered) of six per cent per month. Initially, the central bank subsidized the high time deposit rates paid by the state banks, but the subsidy was phased out with the slowing down of inflation. These deposits, guaranteed by the central bank, proved immensely popular, causing the public to hold about one-quarter of their liquid assets in this form.¹¹ Following this success, the authorities issued other financial instruments, such as dollar denominated deposits and lottery prize and insurance linked deposits. Furthermore, tax exemptions for all deposit interest income on longer term time deposits were introduced in 1974. Since mid-1978, state banks have set their own rates on time deposits with maturity terms of less than six months. Private and foreign banks which do not enjoy government guarantee have always been free to set their own deposit and lending rates, which as expected, have been higher.

This then explains the growth of broad money in Indonesia. It has been assisted by the spread of branches of financial institutions in both urban and rural areas. The allocation of credit, however, still appears to be biased towards the modern sector.

While financial deepening has been substantial, the 1982 level of $\frac{M_2}{GNP}$ in Indonesia was only that attained by Malaysia and Thailand in 1966. Arndt argues that financial deepening would have been more vigorous had it been possible for the central bank to use less blunt instruments to control money supply and credit.¹²

Malaysia. Financial development in this country has been robust and broad-based with the central bank playing an active role in the development of financial institutions. High real growth rates of per capita income, positive real rates of return and an extremely creditable record of inflation have contributed to financial deepening. Furthermore, as a matter of policy the government has avoided monetizing budget deficits. While overall deficits in the federal government budget have grown larger with each five-year plan, these have for the most part been financed from non-inflationary sources by tapping especially contractual savings organizations and in recent years increasingly through external borrowing.

The central bank of Malaysia, Bank Negara Malaysia (BNM), was established in 1959. Prior to this, there already existed a fairly well developed commercial banking network, dominated by foreign banks and geared largely to the needs of financing foreign trade. From the outset BNM has sought to increase the role of domestic banks including a better spread of the banking network and to reorientate credit allocation in line with the changing priorities of the economy. This to some extent has reduced concentration. In line with the policy of "localization" commercial banks¹³ and other NBFIs have been required to hold liquid assets in the form of Malaysian government securities, both to reduce overseas lending and to create a market for such securities, aiding monetary management in the process. Such a requirement is of course not unique, since many countries upon

gaining independence have pursued the same policy. To assist monetary management, lender of last resort and rediscounting functions have also been invoked. Thus, during the 1960s, BNM's energies were channelled to the creation of a sound financial structure.¹⁴ Undoubtedly, this facilitated financial deepening.

Malaysia's common currency links with Singapore ended in 1967. The period since then has seen the development of more independent secondary markets with the establishment of money brokers, discount houses, and merchant banks emphasizing diversification and offering a wider range of financial services through the use of new financial instruments.

In the aftermath of the 1969 disturbances, credit guidelines to priority sectors have been deliberately introduced in line with Malaysia's New Economic Policy. Rural credit and other specialized institutions to increase *bumiputra* investment have for the same reasons been on the increase. In particular, the National Savings Bank/Post Office Savings Bank¹⁵ with assets of over M\$1.5 billion is fairly active in the rural areas, traditionally the neglected areas in terms of financial development. Generally, most NBFIs are subject to central bank supervision though, of course, in varying degrees. This is both for reasons of prudence and the pursuit of monetary policy.¹⁶

Since the floating of the Malaysian ringgit in 1973, an additional tool has been added to the monetary policy tool kit. Also partly in line with world-wide trends, most interest rates have generally been deregulated since late 1978.

The capital market too has developed. Malaysia has an independent stock exchange, that is, independent of Singapore; the contractual savings organizations have also shown robust growth.

Financial deepening has progressed to the extent that the financial asset-GNP ratio was 2 in 1983, relatively high for a developing country.¹⁷

Philippines. In ASEAN, the Philippines has the greatest degree of financial specialization. This legislated specialization has, however, not proved to be an unmitigated blessing causing fragmentation in financial activities. Although there are a large number of participants in the financial sector, there is evidence of concentration and market power.¹⁸ This lack of active competition implies an efficiency cost.

Total resources of the financial system increased from 48 per cent of GNP in 1960 to 95 per cent by 1978.¹⁹ The 1970s was a period of relatively fast growth of GDP but with adverse international developments. The principal objectives of monetary policy have been to promote growth with internal and external balance and to improve the mobilization and allocation of financial resources. While the financial system has mobilized a growing proportion of the country's savings in financial form, there remains a dearth of long-term finance. The lack of maturity transformation, on the one hand, creates a climate of uncertainty for investors, reducing capital formation in the process, and on the other, causes a misallocation of resources, thereby reducing the efficiency of financial intermediation. Financial

reform, although initiated in mid-1980, has had to take a back seat in view of the present economic difficulties.

The banking system, controlling 75 per cent of financial assets, comprises commercial banks, rural banks, thrift banks and government-owned specialized banks. The Philippine banking system is based on the U.S. model with legislated separation of commercial and investment banking.

Commercial banks, accounting for more than half of total assets and number of offices, dominate the financial system. The government-owned Philippines National Bank is the largest with assets amounting to a third of the total. Commercial bank credit is channelled mainly to manufacturing and trade. Since 1970 the commercial banks have been allowed to accept foreign currency deposits as part of the policy to develop Manila as an offshore financial centre. While rural banks, the next largest in number, extend credit to small farms and rural enterprises with government support, their share of total assets amounts to less than five per cent. Considerably more important are the government-owned specialized banks, established to carry out specific functions, which account for another 20 per cent of the financial assets.

Among the NBFIs, the dominance of government is evident in the institutions of the Government Service Insurance System (GSIS) and the Social Security System (SSS).

Short-run money markets are active and well developed in the Philippines. The capital market in contrast is not a significant source of medium and long-term finance. The number of primary issues is quite small and the amounts raised insignificant. There are three stock exchanges; activity is generally speculative.

Singapore. As is well known, Singapore's economic structure and, therefore, its policies differ in many important ways from the rest of the ASEAN countries. A number of such differences are evident also in terms of financial development and policies.

The first point of contrast is that Singapore has no central bank. Its currency, backed at least 100 per cent by foreign assets, continues to be issued by a currency board. Side by side, there is the Monetary Authority of Singapore (MAS, established in 1971) endowed with the traditional powers and functions of a central bank except that of note issue.

A question frequently asked is why Singapore despite its "modernization" has continued with what is called an archaic, colonial institution, the currency board. Such a system, at least for Singapore, given its openness, has conferred a number of significant advantages. Firstly, the automatic convertibility of its currency into foreign exchange has facilitated international trade, investment and financial activity. Secondly, it has a built-in balance of payments adjustment mechanism. To some extent this rules out anticyclical monetary policy; thus, the currency board system would imply a deflationary bias. Thirdly, while the system prevents deficit financing by the government — perhaps one reason for the government's conservative fiscal policies — it does not of course rule out borrow-

ing whether from domestic or foreign sources. In fact, such a system should assist the latter.

More importantly, in the context of Singapore's small open economy, it is doubtful whether traditional demand management policies, monetary or fiscal, are very useful.²⁰ Apart from this, open market operations, a traditional tool of monetary policy, cannot be used effectively to manipulate the monetary base given the small secondary market in government securities. What has become an important monetary policy tool in recent years is the management of the exchange rate.

The second point of contrast is that in Singapore, the financial sector²¹ has been deliberately developed as a growth module in its own right rather than merely as a conduit for other economic activities. This has required the Monetary Authority of Singapore to have a development focus, in initiating, guiding, supervising and regulating financial activities. It has also demanded rapid deregulation resulting in increased competition in financial activities with relatively more stable interest and foreign exchange rates.

Rapid economic growth, rising per capita incomes, a more diversified production structure accompanied by low rates of inflation explain financial deepening and development in Singapore. A sound financial structure has undoubtedly been helpful also. Recent amendments to the Banking Act and the MAS Act referred to earlier — changes described as tough by the media and financial sector participants — are designed to maintain depositor confidence and to avoid a replay of past and recent events either in Singapore or elsewhere.

Commercial banking and the banking habit are both well established in Singapore. Since 1970, there has been a huge influx of commercial banks into the financial system to participate primarily in offshore activities; these institutions are distinguished by the grant of restricted or offshore licences, thereby imposing restrictions on their participation in domestic banking activities. There are at present 37 full licence banks (13 domestic and 24 foreign), and 13 and 71 restricted and offshore banks respectively. Although there are a large number of foreign commercial banks, the domestic banks by design have a more extensive branch network. This expansion is partly the result of rapid urbanization in the country.

The other fairly numerous NBFIs are finance companies (approximately half are bank-related, thus making for some measure of concentration) and merchant banks. These for the most part are private institutions.

The two dominant public sector NBFIs are the Post Office Savings Bank (POSB), with deposits exceeding \$6.2 billion at the end of 1983 and the Central Provident Fund (CPF), Singapore's social security organization. Interest from both (POSB and CPF) enjoys preferential tax treatment. This, combined with an extensive infrastructure, government guarantee and an innovative approach explain the spectacular growth of the POSB.

Money, discount, foreign exchange, and gold markets, the stock exchange, as well as offshore activities have seen progressive development over the period being considered as have other financial institutions and instruments, giving both lenders and borrowers a wider range of choice. The most recent addition to the

financial sector, the Singapore International Monetary Exchange (SIMEX), should enhance its financial image further.

In spite of its advanced stage of financial development, there exists side by side an informal money market which includes the licensed *chettians* (money-lenders) and pawnshops plus probably numerous but unlicensed individuals.

Thailand. The main policy stance of the central bank in Thailand (Bank of Thailand, established in 1942) appears to be the control of inflation and the maintenance of monetary stability, suggesting a greater concern with stabilization rather than growth. Like other central banks, it is endowed with the usual panoply of powers and functions.

Thailand's financial system is dominated at the present time by private domestic commercial banks. Bank concentration is evident and has increased since the 1960s.²² There is also evidence of their being controlled by six or seven families. However, a widening of shareholdings is being enforced by the First Amendment of the Commercial Bank Act of 1979.²³ While the commercial bank network has expanded, this has been strictly controlled by the Bank of Thailand since the 1950s.²⁴ Despite this, Thailand's currency ratio, as observed, is the highest in

ASEAN. However, as detailed in Table 2, its $\frac{M_2}{M_1}$ ratio has increased dramatically, signifying greater monetization, partly because of a shift from the informal money market in response to higher interest rates on time deposits, and partly because of greater confidence in the banking system. There remains, however, an active, large and sophisticated informal money market.²⁵

Successful competition to commercial banking in recent years has been provided by the rapid growth of finance companies, partly as a consequence of the strict control over the issue of commercial bank licences. The emergence of these finance and security companies coincided with the high inflationary period from 1973 to 1981. The higher and more flexible interest rates paid by these institutions appear to have circumvented much of the effect of inflation on financial assets.²⁶

Other more specialized NBFIs have also made their appearance as elsewhere in ASEAN.²⁷ There is, however, no discount market nor an active secondary market for government securities. The stock exchange was reorganized in 1976, remained active initially but collapsed in 1979. There is a felt need to raise equity capital in Thailand and a vigorous stock exchange is useful for this purpose.

Interest Rate Policies

The previous section examined financial deepening and development in ASEAN with reference largely to institutional development. However, a number of specific monetary policies also significantly affect the process of financial deepening. These include interest rate and selective credit policies, which are examined in this and the next section.

We begin with some general aspects. There are at least two aspects to

interest: it is both a return and a cost. As a return, it influences the choice between present and future consumption and under an imperfect market also the choice among assets.

Policies which hold interest rates below equilibrium levels are neither helpful to saving nor to investment. Rather, they result usually in an augmentation of the informal financial sector, where as is usual, the cost of credit tends to be much higher.

In terms of saving, a policy of cheap institutional credit, as is usual in the LDCs, can be expected to cause funds to move into unproductive tangible assets — that is, away from financial claims — thus reducing resources for productive investment.

In terms of investment, interest rates below market clearing rates introduce a bias favouring the use of capital; this is frequently reinforced by the grant of fiscal incentives for investment. Ostensibly, rates are kept low to benefit small producers, but generally, evidence does not indicate that such groups in fact benefit.²⁸ Neither are nascent enterprises seen to benefit. In other words, credit repression is likely to militate against innovation as well. Myint attributes the persistence of financial dualism in LDCs to cheap institutional credit in the modern sector.²⁹ The optimal solution calls for the abandonment of such policies and, where necessary, the substitution of explicit for implicit subsidies to increase the efficiency of the system.

ASEAN is generally trying to move away from institutionally set (administered) interest rates to market-determined rates. Apart from the resultant allocative efficiency, the additional benefit of this policy is the speedier adjustment to changes in market conditions. However, only Singapore has gone the whole way in terms of deregulation: here interest rates became market determined from 1975, and exchange controls were removed in 1978.³⁰

Since the beginning of 1978, Indonesia's state banks have been allowed to set their own rates on deposits maturing in less than six months. In mid-1983 control over state banks' deposit and loan rates and credit ceilings on all banks was lifted. However, credit for priority areas remains regulated.

Malaysia initiated a policy of partial deregulation in late 1978.³¹ However, interest rates on loans to priority areas also remain controlled.

The Philippines embarked on much needed financial reform in mid-1980. One of the most important of these was the move towards a system of universal banks to reduce market fragmentation. In July 1981, interest ceilings on deposit and term loans were removed; short-term commercial loan rates, however, remain controlled. Further reforms must now await the return of more stable conditions.

The amendment of Thailand's usury laws in 1979 allowed a more flexible adjustment of official interest rate ceilings in line with international interest rate movements, introducing somewhat greater flexibility in domestic deposit and loan rates.³² Commercial banks have been allowed to vary deposit and loan rates, but long-term and priority credit is still regulated.

The policies outlined above imply that a greater measure of competition has

been introduced. This should assist financial development, provided other repressive policies are simultaneously removed or at least their role reduced.

Selective Credit Policies

As observed, the ASEAN countries often grant preferential interest rates to selected sectors and borrowers. This has the effect of reducing lenders' net return forcing them in turn to reduce returns to depositors. Such a situation is unlikely to increase saving in financial form, thereby retarding financial growth or enhancing financial dualism. Where it is necessary to make credit available to selected sectors and persons, the allocatively ideal solution once again is a direct subsidy.

Our concern here is less with the use of selective credit controls for short-term stabilization,³³ but rather with those which are used as adjuncts of an overall development policy. These policies are briefly reviewed for the ASEAN countries.

To redress sectoral firm size and racial imbalances, Bank Indonesia has established a complex system of rediscount financing, rediscount rates and state banks' loan rates as part of its selective credit policies.³⁴ Such measures are deemed to have reduced the flexibility and efficiency of the state banks and discriminated against smaller and newer customers.³⁵

Credit guidelines have been more extensively used in Malaysia since 1970 as part of its New Economic Policy. For commercial banks, loans to the *bumiputra* community are, from 1 April 1984, to be at least 20 per cent of total loans outstanding at the end of 1983 (compared to 18 per cent for 1983); loans to small-scale enterprises and agricultural food production are to comprise 5 and 6 per cent respectively of loans outstanding as at the end of 1983. Commercial banks as a group are required to provide finance for the purchase of at least 20,000 new housing units costing M\$100,000 or less. Of these, 6,000 units are to be for *bumiputras*. Interest rates on business loans to the *bumiputra* community are not to exceed 9 per cent; a similar ceiling exists for small-scale enterprises but is one percentage point higher for individual housing loans not exceeding M\$100,000. Broadly similar guidelines exist for finance companies.³⁶

Policies to allocate credit sectorally are also the norm in the Philippines. The target for agriculture is set at 25 per cent. Data on commercial bank lending, for example, do not seem to reflect the 25 per cent guideline. It is not possible to say whether the credit target for agriculture and other priority areas is met in the aggregate.

Commercial banks in Thailand are required to lend a minimum of 13 per cent of total credit to agriculture. Alternatively, the funds may be deposited with the Bank for Agriculture and Agricultural Cooperatives.³⁷

It thus appears from the above, that with the exception of Singapore, the other ASEAN countries continue to utilize credit guidelines fairly extensively. This, in fact, nurtures the informal money market.

Conclusion

Our analysis of the financial structure in the ASEAN countries has indicated broad changes as well as identified a number of gaps. National policies and experience indicate fairly wide variation. Generally, reliance on market forces is heaviest in Singapore, resulting in greater financial integration, but more segmentation in the other countries. For the latter, further financial deepening will demand the removal of repressive policies. While allocative efficiency has generally been emphasized in this paper, it is recognized that countries have other objectives as well. This being the case, it is necessary to place the efficiency-equity trade-off on a more explicit footing, and also to compare the short and long-run ramifications of particular policies.

A key requirement for the ASEAN countries is a significant expansion of private investment. In Malaysia, while the capital formation-GDP ratio has shown progressive growth, its planners have been less than satisfied with the share of private investment. As noted, there is a dearth of long-term funds in Indonesia, the Philippines and Thailand. The need to develop capital markets here is, therefore, particularly acute. Both Malaysia and Singapore have successfully mobilized long-term funds in a non-inflationary manner by tapping their social security organizations. Empirical evidence indicates that pension funds are also a preferred form of saving. Thus, Indonesia, the Philippines and Thailand could usefully examine the experience of the other two in this regard. This will simultaneously allow them to reduce their government's reliance on their central banks for financing, and similarly on external (foreign) borrowing.

Financial dualism is present in different degrees in all the countries, but unfortunately our knowledge of this sector is far from sufficient. Even so, integration of the formal and informal money markets would not only facilitate fund mobility but also reduce its cost. There is, thus, a need to examine policies which will directly or indirectly promote this integration. Such policies would need to consider both the supply and demand side of the picture. In particular, it would require a study of saver preferences so as to introduce (financial) instruments to satisfy these preferences.

Finally, financial deepening is a function of not just one factor or one set of policies — for example, monetary policies. The fiscal connection is relevant here. As elsewhere, ASEAN's public sector has shown considerable expansion over the period being considered. A large part of this is due to the expansion of off-budget agencies (OBAs);³⁸ not only is their dependence on central government budgets (through loans and equity participation) heavy, but frequently, governments have made open-ended commitments to provide loans/credit to them. In such circumstances, control over the monetary base becomes extremely difficult especially where the OBAs are to be provided with subsidized credit. Where central banks attempt to control the potential inflationary impetus of this by raising, for example, reserve requirements of depository institutions, this increases the degree of financial repression. Thus, policies to contain budget deficits are equally relevant to financial deepening.

NOTES AND REFERENCES

* This is a revised version of a paper presented at the Federation of ASEAN Economic Associations' Conference held in Kuala Lumpur, 12-14 November 1984.

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3. The sectoral composition of savings is available only for the Philippines, for 1975-78; it confirms the observation that the largest component is household saving.

Personal Saving GNP	Government Saving GNP	Gross Corporate Saving GNP	Foreign Saving/GNP
15.3	3.8	4.9	-0.6

SOURCE: "Financial Development and Household Saving: Issues in Domestic Resource Mobilization in Asian Developing Countries", *ADB Economics Staff Paper No. 10*, July 1982, p. 20.

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9. For example, the Banking (Amendment) Bill 1984, the Monetary Authority of Singapore (Amendment) Bill 1984, the Finance Companies (Amendment) Bill 1984. See also *Business Times*, Singapore, 28 December 1984.
10. Stephen Grenville, "Monetary Policy and the Formal Financial Sector", in *The Indonesian Economy during the Soeharto Era*, edited by A. Booth and P. McCawley (Kuala Lumpur: Oxford University Press, 1981), pp. 102-3.
11. *Ibid.*, p. 121.
12. Heinz W. Arndt, "Monetary Policy Instruments in Indonesia", *Bulletin of Indonesian Economic Studies* 15, no. 3 (1979): 116.
13. Since late 1981 commercial and merchant banks in Malaysia have been allowed to lend and syndicate loans in foreign currency to residents. See Bank Negara Malaysia, *Money and Banking in Malaysia*, second edition (Kuala Lumpur: BNM 1984), p. 409.
14. New capital adequacy requirements for commercial banks were announced by the Malaysian central bank in late 1981 because the rapid growth of commercial banks had resulted in a progressive dilution of the capital base.
15. It was recently reported that in 1981-83 savings in the National Savings Bank declined. This is attributed to the preference of depositors for commercial bank finance and shifts by bumiputras towards investment in unit trusts operated by the National Unit Trust. See *Mid-term Review of the Fourth Malaysia Plan 1981-85* (Kuala Lumpur: Government Printer, 1984), pp. 287-88.
16. For example, the Insurance Act, 1963, was amended in 1983 to provide *inter alia* for increased

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17. Bank Negara Malaysia, *Quarterly Economic Bulletin* (March/June 1984), p. 34.
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 20. Goh Keng Swee, *The Economics of Modernization* (Singapore: Asia Pacific Press, 1972).
 21. The development of offshore financial activities is well documented. See, for example, A.K. Bhattacharya, *The Asian Dollar Market: International Offshore Financing* (New York: Praeger Publishers, 1977); Zoran Hodjera, "The Asian Currency Market: Singapore as a Regional Financial Centre", *IMF Staff Papers* 25 (1978); and Michael Wong Pak Shong, "Development of Singapore as a Financial Centre", in *Towards Tomorrow* (Singapore: National Trades Union Congress, 1973).
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 25. One study reports that this sector appears to be declining as a result of urbanization, greater mobility and higher returns offered by commercial banks on time deposits. See Viksnins, *op. cit.*
 26. For details, see David Cole et al., "Modelling of Financial Markets in Thailand in an Asset-demand and Institutional Framework" (Paper presented at the 14th PAFTAD Conference on Pacific Growth and Financial Interdependence, Singapore, 18-21 June 1984).
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 31. A new system of interest rate determination came into effect on 1 November 1983. All borrowing rates are now anchored to a bank's declared base lending rate to ensure some automaticity. See Bank Negara Malaysia, *op. cit.*, p. 59.
 32. Bank of Thailand, *Quarterly Bulletin* 23, no. 1 (March 1983): 39.
 33. For example, those implemented by Indonesia between 1966 and 1971 under the IMF standby arrangement.
 34. Anwar Nasution, *Financial Institutions in Indonesia* (Singapore: Institute of Southeast Asian Studies, 1983), pp. 100-1.
 35. For a detailed assessment of these policies, see *ibid.*, especially pp. 102-7.
 36. Bank Negara Malaysia, *Quarterly Economic Bulletin* (March/June 1984), pp. 21-22.
 37. For details of these credit guidelines, see "The Role of the Bank of Thailand in Providing Financial Assistance to Priority Economic Sectors", Bank of Thailand *Quarterly Bulletin* 23, no. 2 (June 1983).
 38. Malaysia, whose overall budget deficit expanded rapidly especially during the 1970s, is now attempting to privatize some of its OBAs. The recently published *Review of its Fourth Malaysia Plan* states that the government will attempt "to gear the financial system to act as a catalyst for the smooth privatization of public enterprises" (Ministry of Finance, 1984, p. 131). It is hoped that this will not engender financial repression.

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Development versus Idealism: Can Singapore Reconcile the Conflict?

DOUGLAS SIKORSKI

H.G. Johnson was one of many to discern the drawback of economic activity, that the production of "goods" necessarily entails the production of some "bads".¹ Concern for the "bads" was an issue of the 1970s, dramatized by an emerging awareness of the finite nature of terrestrial resources. Recession refocused practical attention back to the "goods", to return to economic growth as the compleat palliative; but our "creative destruction"² continued to be questioned by scholars, ecology interests such as the Green Party in Europe, and others.

A test case of a failed attempt by some elements of society to resist economic development occurred in New Zealand,³ where proponents of more modest growth than the government's "think big" strategies must inevitably abnegate their traditional life-style to development interests, who seem more rational than those lamenting change. The old order will be subsumed by the new. But a similar futility faces ecologists in Brazil who urge caution in the development of the Amazon Basin.

To some idealists, world society has reached a stage of arrested progress in its historical evolution. The Industrial Revolution led to fantastic improvements in societal well-being, but accumulating problems (socio-economic as well as ecological) stymie the quest for our destiny. We therefore must question our basic processes and postulates.

To precisely define and resolve the apparent conflict between the modern development mode and the more subtle aspirations of world society would require an immensely complicated, many-faceted evaluation, which no one writer can accomplish.

. . . our organized capacity to respond to this explosive growth and change is showing ominous limitations. Our problems may be formulated on many levels and in terms of each of the various disciplines, from ecology to psychiatry to political philosophy.⁴

This essay commences by indicating the "competitive ethic" as the ideological basis of international economic development, then delves into alternative scenarios of limited growth. The political economics of modern Asia, coupled with micro-electronic technology, are posed as a framework which can contribute to moving society forward in a better direction; and Singapore, described as a case in point, seems close to finding the way.

The Competitive Ethic

Society survives on its competitive instincts. That is a central proposition in capitalist dogma, and in the so-called "free world" we direct most economic events with capitalist precepts.

This proposition does not necessarily imply that it is natural law to which every human being subscribes. The only substantive requirement for the creation of economy in a society is that some relationship exist, based on competitive individualism or otherwise, between man and his environment to the end of satisfying his wants.⁵ Our ideological concepts of value, motivation, and policy are contingent upon the way in which the relationship has become institutionalized.⁶ Competitive institutions have indeed been the natural derivative of modern events, especially with the emphasis and wide acceptance of Adam Smith's revered doctrine of self interest.

Institutionalized competition, in the form of "ideologies of opposition",⁷ pervades free Western economies at least. In politics and government it is how decisions are reached, through party partisanship and "checks and balances". For every argument there is a counter-argument, and all views are represented in competition with other interest/pressure groups. In the business and money professions, it is Product A versus Product B, labour versus management, buyer versus seller, and so forth, where competitive confrontation in the market decides all economic outcomes.

There are other ways in which the human spirit can manifest itself. Political economics determines the particular policy approach adopted, and the orientation may be away from the competitive ethic. Communal/fraternal societal systems, as existed in the South Sea Islands, would perhaps stress "co-operation" as being more constructive than competition. However, most such idyllic cultures have been displaced by modern economies. Political economy has even allowed for marketless societies,⁸ but such episodes in history have no relevance in the modern era where market choice is inevitably compounded with the above "substantive" meaning of economics.

The policy choice of centrally-directed socialism is not marketless, disclaiming only free, decentralized markets. Such societies are hardly one step away from capitalist economies in their stance *vis-à-vis* the competitive ethic, recognizing that their goods and services must be competitive if they hope to progress and accumulate wealth. An example of a socialist nation which has succumbed to this "ethic" and which now overtly welcomes competition within its society is China. If we also take into account the examples of Japan, Singapore, and other such "guided free enterprise"⁹ economies, we see that central direction can be a very apposite element of competition among nation-states.

The underlying truth that is being implied to this point is, again, not a global rationality espousing the competitive ethic as a universal truth of human conduct.¹⁰

Rather, competition must simply be recognized as the accepted principle by which the world now conducts its affairs. Nearly all societies, and nearly all individuals within societies, ascribe to this behaviour norm. Since the force of world events is being propelled by — and in turn propels — competition, interpreting the impact of the competitive ethic is of paramount importance in both understanding the present and predicting the future.

The Dilemmas

Such a pervasive philosophical concept is this ideal of competition, especially in rendering the laws of capitalism. The economic¹¹ benefits are well known: incentive for productive behaviour, efficiency of free markets, and so forth.

Indeed, productiveness is the indicated, peaceful response to the stimulus of competition. There are other possible outcomes, that is, the attempt to control economic liberty through measures ranging from international cartelization to socialism; but the dominant historical trend has been to exploit commercial competitiveness, whether individual or state-directed, as the most viable means of pursuing self interest. (This Free Trade Movement is depicted by Ellsworth and Leith as one of three “great changes” since Mercantilism, along with the Industrial Revolution and the development of the international economy.¹²)

There are also other arguments to this same effect, where capitalist society’s productive tendency is variously termed “purposefulness”, “goal-oriented behaviour”, “cybernetic behaviour”, or “creative destruction”. An example is the Parsons-Smelser¹³ contention that the functional goal of the economy is maximization of production. The point here is that, in times of normal prosperity, economic activity (production, and consumption¹⁴ as per Say’s Law) will continue to rise inexorably.

Obviously, this circumstance is laudable as the ultimate success of capitalism; but there are some deleterious implications. One dilemma concerns the earth’s capacity to contain such a dynamic system and whether resources can last. Given the present size of the world population, let alone the most conservative projections of future population, can natural systems endure our wonted rate of production and consumption? This is, of course, a very unsettled debate. One school of thought would contend that man’s innovative abilities will continue to master all problems. Undeniably, technological change has so far pre-empted all past pronouncements of doom since Malthus (though nature’s wealth has certainly declined since then).

Herman Kahn in 1982 extolled “the new dynamism of high tech”¹⁵ as the world’s saviour, and indeed some new technologies, notably “superconductors”, are promising. Seabed mining and even space may provide relief. But such breakthroughs may only be a partial solution, or may even augment the problem.

The argument had been presented by W.W. Rostow,¹⁶ Alvin Toffler,¹⁷ and others that productive efforts of the future may be channelled to the services, and

to less resource-intensive, less polluting industries such as electronics. There indeed appears to be some kind of industrial restructuring occurring, albeit slow and unsure, in terms of altered, if not inevitably reduced, world growth in many traditional industries.

Some are less optimistic concerning man's innate ability to always "rise above". Pessimists follow an opposite tack in their analysis:

The basic assumption is that stocks of things like the world's natural resources and the waste-disposal capacity of the environment are finite, that the world economy tends to consume the stock at an increasing rate (through the mining of minerals and the production of goods), and that there are no built-in mechanisms by which approaching exhaustion tends to turn off consumption gradually and in advance. You hardly need a giant computer to tell you that a system with those behavior rules is going to bounce off its ceiling and collapse to a low level.¹⁸

Predictions such as by the Club of Rome that "... limits to growth on this planet will be reached sometime within the next hundred years . . ." ¹⁹ may have been superseded by events as present aggregate trends are much reduced; but the fundamental point, that limits exist, remains a persuasive argument.

A second dilemma²⁰ intrinsic to the competitive production cycle concerns "quality of life" effects. As man's encroachment on nature proceeds relentlessly,²¹ as old life-styles and cultures disappear, as the need to buy and sell seems to transcend all else and yet poverty, unemployment, and other nagging problems persist, some view the future with misgivings. If economic development (growth) reaches out so cancerously, do all societies want to join the band wagon?

Economic Development — a zero-sum game?

There is no reasonable alternative to economic development as a policy direction, given the present world *realpolitik*. Few individuals, or nations, can take "the road less travelled by".²² Nations opt for material progress as the means of attaining the goals of most societies:²³ a high standard of living, security and achievement. In the existing order, this progress is attained through technology, efficiency of labour and institutions, competitiveness, and the like. For any segment of world society to try to exclude itself from the development of the international economy is folly, as China now realizes.

The rules of conventional economics apply to all members of the world community: economic growth, competitive economic relations, etc. However, modern events have compelled suggestions for alternative approaches, generally to attempt more "cooperative" (as opposed to competitive) socio-economics. For example, in the face of the energy crisis, old Keynesian demand stimulation economics was challenged as inappropriate for situations where total world demand might exceed supply. Rather than incur the resulting inflation, a "fair share" policy was one proposition.²⁴ "Managed trade" was a more recent sugges-

tion²⁵ along the same lines. In fact, most current writings identify co-operation as the conceptual alternative to free competition.²⁶ Distribution, not expansion, of economic resources becomes the implied priority. This kind of notion represents the classic counter-tendency to the Free Trade Movement, in the historic struggle for ideological supremacy of free competition versus the need for social control.

"Fair share" is of course an underlying rationale in governmental measures to regulate free trade, from commodity agreements to negotiations with Japan to limit her exports.²⁷ And fair share applies in many mature industries where production and markets are being allocated — witness the Multi-Fibre Arrangement for textiles, with its complex forms of protectionism such as "anti-surge" clauses and "outward processing traffic" agreements; or the "yield improvement" pricing programmes and other arrangements in the airlines industry.

Furthermore, there are certainly different forms of competition worldwide — for example, Japan's more group-oriented approach contrasts with Hong Kong's *laissez-faire* individualism; and each form engenders (or originates from) differences in mode of behaviour. It is, therefore, evident that the competitive ethic has many variants, and also the nature of international competition is in transition, but it is not yet clear what form any new international economic order will take.

The intellectual inquiry into what became known in the 1970s as "zero growth economics" has been a popular pursuit around which fair share policy might evolve (especially as a possible outcome of the reduced demand which has characterized the contemporary world economy). Although the development of no-growth economics has not achieved very distinguished progress beyond vague macro-conjecture a critique of some of the most noteworthy suggestions is appropriate.²⁸

Heilbroner suggested in 1974 that "a deceleration in growth, enforced by government decree, could include provisions for leaving market shares relatively undisturbed".²⁹ To offset the deflationary effects of investment declines in non-expanding business, the government could invest in other ways to maintain public incomes and demand. Transfer payments and other measures possible in "state capitalism" were Heilbroner's prescription. However, he conceded that all these solutions come up against the impenetrable barrier of changing the capitalist system — for example, the curtailing of free markets and the natural competitive striving to expand output. Furthermore, the have-nots must retain some chance of improving their condition and achieving their dream of parity.

Herman Kahn³⁰ contended that the world economy may subside to a no-growth pattern once worldwide development has been essentially completed. The argument is that bridging the gap between developed and developing countries accelerates growth for a complex of reasons, such as technology transfer, availability of capital, and useful examples. As the gap narrows, economic expansion will subside due to slower population growth, diminishing returns from increasingly costly factors of production, and a diminution in the marginal utility of wealth and production in an advanced world society.

However, many economists doubt even the longer term possibilities of satisfactory development being accomplished. This is especially doubtful because of problems of equity. India, Malaysia and others vainly insist on a need for a New International Economic Order (NIEO), contending that world capitalism dispossesses some cultures.

Even though "growth is not an engine for producing economic equality",³¹ most economists agree that, paradoxically, "The priorities of the present lie in the temporary encouragement of the very process of industrial advance that is ultimately the mortal enemy".³² A return to rapid economic growth in the North can ostensibly benefit the South.

Robert Solow³³ and most other conventional economists resort to the price mechanism as the tool about which natural progress towards reducing growth in resource consuming industry will be accomplished. He contends that a rising productivity of resources, spurred by rising resource prices, averts depletion. H.G. Johnson³⁴ supplemented this argument by pointing out that society will conserve when it pays to do so. Yet, desecration of nature continues, even in recession, unabated by hypothetical economic law. In fact, the opposite to conventional predictions has happened, as the price of oil or timber only falls when influenced by unused production capacity and the need to maintain current revenues. Solow's supposition may some day become valid, for example, if demand permanently outstrips supply, but even unconsumed resource exhaustion restricts our future options; and anyway, fair-share policies may place priority on immediate needs.

On a micro-basis, it may happen that no-growth businesses take on characteristics of that segment of enterprise existing now in a relatively stable state. For example, some companies can pay high dividends because funds need not be reinvested, or share prices would decline towards book value. There would be fewer of the disruptions to efficiency which often accompany rapid growth and change, that is, more stability in all markets — financial, employment, and so forth. Management, forsaking profit, may turn its energy to service or other goals for its *modus operandi*. We need only wonder if there is a way to maintain a "zero growth" world economy without seriously impairing initiative and the other driving forces of progress. Under our philosophy of profit motive where profit incentive feeds on selective expansion of opportunity, steady-state business does not seem viable.

The zero growth alternative is not an easy one, given the actualities of economics. However, something resembling zero growth may be evolving naturally now. The prospect might be for a continuing exacerbation of competitive pressures over slowly growing profit, with both business and government becoming increasingly niggardly.

On the other hand, a return to world prosperity, while offering a respite from more immediate problems,³⁵ may only hasten the processes described in this treatise. In 1978, before the full impact of recession, productive asset utilization in the rich countries was only about 75 per cent of capacity;³⁶ and so many emerging economies are investing in industrialization, anxious for the payoff.

Solutions must, and will, be found due to the imperative of need. Some formula for controlled (co-operative) development still seems appropriate, if it can be conceived, but we will return to this point. However, the most obvious solution, to create room for the dynamics of free competition, is reduction of human population. In addition to resolving the "dilemmas" identified earlier, smaller populations could directly or indirectly mitigate the severity of a wide range of vexing socio-economic ills.³⁷ "There would be no economics if there were no scarcities . . . then the 'gloomy science' would not exist".³⁸

However, the intractability of the population problem must be immediately conceded. In fact, the world problématique, in the opinion of some, may be insuperable:

If then, by the question, "Is there hope for man?" we ask whether it is possible to meet the challenges of the future without the payment of a fearful price, the answer must be: No, there is no such hope.³⁹

The Critical Question

The central objective of international government, and the main thread of all policy orientation, and intellectual and occupational endeavour should be the preservation and improvement of our planet. Yet, we surge through history so haphazardly, taking immense risk. We learn how to do, disregarding how to know — we emphasize how to produce, how to manipulate our environment, with only secondary attention to how to understand it. The competitive ethic reigns supreme.

The swirl of modern life in such major developed areas as coastal United States, Western Europe, East Asia and Singapore seems, to the urban mentality of our thinkers and policy-makers, the best and only way. But are there alternative possibilities? To ponder this question takes imagination.

Conventional thinkers generally tend to resist "the very basic or very speculative thinking that may be essential to raising issues about the future, in part because of a well-grounded feeling that such thinking and discussing are usually unproductive and expose those who make the attempt to criticism, bureaucratic animosity, or ridicule. Yet it is often necessary to be courageous — or seemingly irresponsible — in suggesting and defending farfetched issues in argument, if unprecedented but crucial considerations are to be discovered and appreciated".⁴⁰

Farmer and Richman wrote in 1970, ". . . we know of no one who really supports . . . the reduction of world population by several billions".⁴¹ It is a radical position⁴² still, partly because socio-economic patterns seem set, and large populations are simply considered as a condition from which all thinking must proceed. It is given. But if a new socio-economic formula could alter the present "set", then we may also alter "the very basic or very speculative thinking . . . about the future".

Attempting to delve out a root value in the insidious conflict between

idealism and the modern development mode, this paper examined "the competitive ethic". The implications of competition were argued within a larger framework where the basic issue is economic liberalism⁴³ with divergences represented by government-type intervention. A dichotomy evolves around the eternal debate between two extremes which can be variously depicted.⁴⁴ For example:

Free Trade Movement

laissez-faire

free enterprise

competition

individual

capital

market economy

private

Republicans

managed trade (fair share)

government intervention

socialism

co-operation

society

labour

command economy

public (collective)

Democrats (USA)

The point of focusing on what may be the most emotive expression of the dichotomy (competition/co-operation) was twofold: firstly, coming to grips with idealism requires having our "heads in the clouds" to some extent. Secondly, the analysis dovetails with the greater context of the debate, which implies the issue is unresolvable — essentially political/ideological. This reveals the fallacy in the popular anti-capitalist, anti-growth stance of those who see "the system" as somehow less than would be desired. The concern is justified but the prescription shallow. The ideal resolution may be some median point between dichotomous extremes, a nexus representing perhaps a free (competitive) system which engenders co-operative spirit. But this seems most easily imaginable in a world of abundance. If one casts the imagination far enough adrift to contemplate a modern world of, say, two billion people, then the new society can be conceived without poverty, unemployment, and so on — a Camelot-type, modern coexistence of nature with "development", where economic autonomy fosters freedom, cultural diversity . . . , and so forth.

But projecting an ideal world is certainly beyond the scope of this paper. The depth and breadth of the "second dilemma" were only cursorily examined — this must be left to individual imagination. And it was implied that undesirable outcomes from the "first dilemma" were only possible, not a certainty.

The critical question remains to be addressed.

Capacity for the far-out thinking that may be necessary is very limited in most societies. Countries vary considerably in their attitudes because of differences in social, political, economic, cultural, scientific, and technological values. Asia's idealism may be almost opposite to what seems the traditional American dream of "back to the land",⁴⁵ unfettered by government. Singapore, for example, seems to want only the wealth and life-style of urban/suburban Western society, fostered by a strong and wise government in the Confucian tradition, and shares the common

view that nature should be conceived in terms of its productive utility for mankind.⁴⁶ Developing countries in general are less interested in hearing about the environmental consequences of industrialization.

Alvin Toffler's famous *Future Shock* delineated the issue years ago: "We are in the midst of the super-industrial revolution. If failure to grasp this fact impairs one's ability to understand the present, it also leads otherwise intelligent men into total stupidity when they talk about the future . . . One needs imagination to confront a revolution".⁴⁷

Toffler goes on to say that such imagination must come from "the people". How might we become so inspired? Is fear enough? Must we first pay a "fearful price"? Heilbroner claims "the outlook is for what we may call 'convulsive change' — change forced upon us by external events rather than by conscious choice, by catastrophe rather than by calculation."⁴⁸

But the critical question is not: Are the pessimists or the optimists correct? Evidently, tragic or successful outcomes are conceivable. The critical question is: How do we get from here to there?⁴⁹

A City-State Perspective: Singapore

This treatise has addressed two issues in one: the competitive basis of the international economy, and a resulting aspect of uncontrollability and boundlessness in economic activity. Although growth and development are almost universally aspired to, an imaginative appraisal of the human prospect compels some concern that the existing development mode has been running amok. It was argued that the world may come to terms with its "growth pains" through population reduction or by some kind of restraint of productive enterprise by fiat, by reaching natural limits, or by general economic slowdown. But no free society can take lightly any prospect of curtailing opportunity because of the manifest connection between economic and political liberty,⁵⁰ and reaching natural limits is unconscionable. A slowdown now seems a likely outcome, but that compounds rather than resolves our dilemmas.

Singaporeans have embraced the competitive ethic with fervour, vindicating its value by their success. And obviously, Singapore as a nation must pursue its own self interest with continuing tenacity, seeking new markets for economic growth and in all ways profiting from, rather than disclaiming, competition. The approach, especially if there is to be less world growth, is to somehow channel economic activity to encounter fewer constraints, either on the supply or demand side. (This last point will be further elaborated later.)

However, concerning the second issue (that is, the need for control), Singaporeans must be concerned with questions of equity, quality, and so forth; and indeed they must also contemplate limits to growth on their own island. Singapore is, however, a special case, and the problems of the world are not necessarily its to bear. An enumeration of the features which distinguish this

unique metropolis is instructive, especially in urban economics and in the role of government; following which, it will be argued that Singapore is thus enabled to achieve a more ideal, controlled course in "getting from here to there".

Firstly, Singapore has little apparent interest in global concerns for preserving resources and the natural habitat. Secondly, Singapore does not have the persistently less rewarding agricultural/commodity sectors nor the simple ways of the land-based peasantry. Thirdly, Singapore has the invaluable advantage of having a largely foreign work-force, for policy-makers are not nearly so culpable (as their counterparts in Britain and the United States, for example) for unemployment.

Fourthly, Singapore has implemented a population programme since 1966 with admirable effectiveness, and government planning aims to keep Singapore one of the least congested modern big-city environments in Asia. (If we assume that socio-economic patterns are now set, it is not evident that Singapore can realistically hope to improve on current demographic expectations. A local study⁵¹ projects zero growth by 2040, at a total population of 3.7 million people, which is half again the present level!)

Fifthly, Singapore's economy is free, yet not unbridled. Since Singapore is a rising economy, there is a strong tendency to grow both in population and in economic activity of all kinds (perhaps most noticeably new construction, which has been the fastest growing sector of the economy in recent years); but its government-controlled enterprises can guard against ill-conceived development as well as other ills of industrialization. A perusal of the Jurong Town Corporation's industrial plans and decentralized "New Town" concepts illustrates that Singapore has a vision, and it is charting its course to the future with creativity and precision. Indeed, the leadership has recently unveiled Utopian dreams to be attained by 1999.

As a microcosm of modern urban society, with a large foreign sector, Singapore shares in the wealth of the industrialized countries. Yet, she has few of their problems, nor is she burdened with the typical Third World difficulties. Within the context of its five advantages, Singapore is somewhat justifiably disinterested in the crucial world issues described in this paper. On the other hand, the sum effect of these "five senses" may be regarded as a "sixth sense" whereby Singapore can address, with at least a modicum of hope, the "second dilemma" — or even create its own Utopia, as an example for all nations.

At the outset, the impracticality of any appeal to overcome the vicissitudes of development must be immediately conceded. Nevertheless, this writer will now brave the risk of "criticism, bureaucratic animosity, or ridicule" to make policy proposals.⁵²

Opposition politicians sense an alienation in Singapore from the many years of rapid growth and change, and they are on to something. Some less desirable by-products of Singapore's economic success are accumulating and must be assessed in prudent debate. However, political contenders often only criticize without suggesting reasonable answers, or demand inane policy measures.

Already the government is adopting perhaps the most appropriate

campaign for a free-market economy to temper the forces of development. By employing the tools of capitalism, Singapore hopes to retain its highly successful "open door" policy to investment while still screening out those industries which demand the influx of cheap labour, through the price mechanism. Ideally, capital- and knowledge-intensive investment can displace the labour-intensive, with the net effect of increasing per capita income without an attendant increase in the requirements for labour. The difficulty of carrying out such programmes as this Second Industrial Revolution to a further extreme, whereby an actual turnaround is achieved in population levels, represents an immense challenge in practical implementation; but through careful planning and manpower development, with a policy priority on at least minimizing population increases, Singapore could possibly succeed in an unprecedented, invaluable experiment. According to classical theory "the ultimate determinant of the rate of growth of capacity [in developed economies] is the rate of growth of the labor force⁵³ and technical change".⁵⁴ Although these two determinants of growth potential generally operate in tandem, they could conceivably be independent variables.

The "Second Industrial Revolution" in Singapore

Singapore has thus identified the key to a more ideal path for development to be in the upgrading of its work-force, which in turn may allow relatively greater growth, that is, shared by the smaller population required to produce it. Furthermore, since the self-improvement of the people is the vehicle by which the nation will progress, such an enlightened society will be better able to understand the forces of economic growth and surmount the intrinsic social, economic, demographic, and spiritual problems. In this regard, Singapore's efforts in education and training are exemplary. From primary school to university, from Skills Development Fund programmes to government cajoling, Singapore's imagination and concern are a model for the world. A good example of imaginative resolve is the government's call for the retraining of 600,000 workers caught in the backwaters of Singapore's drive to restructure its society for advanced development.⁵⁵

There is nothing too original in the Second Industrial Revolution idea. Nor is there anything new in the need to educate the people to improve their condition — The United Nations Hunger Project (quoting a Chinese poet of 500 BC) adopted a slogan to "educate the people" as the long-term solution to the poverty problem. But Singapore's declaration in 1979 of its Second Industrial Revolution embodied a particular concept to mould society around the new technologies. What is new, therefore, is that in Singapore the economic restructuring broadens into a complete social programme which may ultimately provide the prototype of development which meets the challenge of modernization (the two "dilemmas").

The issue is the capacity for conceiving and implementing development strategy, that is, the efficacy of vision. The government's role in Singapore cannot be fully explained here, but the popular term "market socialism"⁵⁶ (or "state capitalism") characterizes Singapore's approach. Dissecting that term, we get

words on both ends of the "dichotomy" earlier discussed, suggesting a resolution of the eternal conflict.

The dichotomy portrayed economic freedom as a function of where society exists on a continuum between two extremes. But in the leadership of many Eastern countries a Confucian⁵⁷ mindset modifies any ideology borrowed from the West, and a different form of capitalism has evolved in the free economies. If we take one illustration, the public/private dichotomy, and note public and private responsibilities for welfare and community activities in Japan *vis-à-vis* the West, we must concede that Japanese "company welfarism" obfuscates the dichotomy as understood in the West. Another dichotomous extreme was depicted as individualism, but it is well known that individuality is differently perceived in the East.

Thus, Singapore's market socialism may not plot neatly on the straight-line continuum, but rather represents another dimension. The formula which promotes the Singapore circumstance is not traditional socialism, nor is it purely capitalism. Much has been written of the "co-operative capitalism" of Japan, and Singapore shares similar traditions. Political leaders in Singapore see themselves allied with business (or direct participants in government enterprises), neither directing them as in China nor regulating them as in the United States. Singapore's free economy provides operational decentralization while the government exercises effective control over the direction of socio-economic development as a whole (more so than in Japan).

Singapore is certainly a democracy if we define "democracy as a specific set of institutions and processes"⁵⁸ but is there an infringement on individual freedom in Confucianism? This pervasive Eastern tradition smacks of Paternalism, a discredited management philosophy in the West. But Western epistemology is not always applicable in the East. "Asia is the most important testing ground for many assumptions about modernity. It can be argued that there is in Asia a 'second case' of modernity . . . It is in Asia, with its ancient and highly sophisticated civilizations, that the alien quality of Western individualism is most clearly evident."⁵⁹

As one means to implement its designs, the government in Singapore assumes a role that is scoffed at by the Western press as "social engineering"⁶⁰ (indeed an apt term). The governability of the society renders viable the various government campaigns and incentive systems.

Another important aspect of the Singapore government role stems from a so-called "tripartite" labour relations system,⁶¹ involving government as a third party along with unions and management. And the unions themselves are acquiescent to the government. The Singapore approach has co-opted potential opposition by successfully enlisting all parties as co-partners in productivity. Spurning the "conflict resolution" approach of the Western labour movement, unions in Singapore instead direct their energies to worker co-operatives and social services.

This novel approach is also evident in other areas of the Singapore scene, notably in politics. "Political leaders look upon government and politics as an exercise of state management . . . Confrontational politics and the politics of competitive mobilization and bargain are discouraged."⁶² Government in the

Confucian tradition "was established on trust and not distrust, on ethical foundations and not checks and balances".⁶³

These academic theories were not confirmed until the fall of 1984 when the Prime Minister asserted, "The politics we will have in Singapore . . . [is] the politics of owners." He disparaged Western "contentiousness".

Most importantly, the rules of the market (to the extent they can be correctly assessed and adhered to) are sacrosanct, and all central manipulation follows from that. The pre-eminence of the price mechanism and productivity concept illustrates the respect for the rules of the market (and national discipline) in Singapore. Pay must be high, supportable, and with minimal non-productive burden.

The liberal complaint is that living in Singapore is becoming a privilege of the rich and that the government discriminates against the poor, for example, cars and beer are luxuries; such policies would be rejected by Western constituencies. But the rejoinder is that any discrimination is not against the poor themselves, but that condition. Singapore's modern brand of Fabianism guards against the Western proclivity to promote the individual rights of the poor even where the productivity of society may be hampered. (There is increasing evidence that even the United States is ready to get tough on the less productive elements of society.)⁶⁴ Singapore is perhaps the first society to be fully cognizant that as world markets mature all endeavour must pay, and those societies which can affix the price will be more efficient.

Outside Singapore, the Green Party seeks a "new world society", the Third World demands a NIEO, and all this has been only idealistic speculation; but in Singapore, market socialism is succeeding. In the old days the market socialist concept concerned how society (through government) could harness the market to its needs; now it concerns the converse, how society can be best directed by market dictates. There is a change in emphasis from the "political man" of Europe to the "economic man" of Asia.

In the United States, it is contended that the government is unable to establish "industrial policy" on economic criteria alone.⁶⁵ The politics of special interest groups may even inhibit effective government management in Japan. Singapore, with its small size and exceptionally talented leadership, may be an exception. "Of particular importance is the political neutrality of the source of much new government revenue which increases the independence of the political élite *vis-à-vis* local interest groups".⁶⁶ Furthermore, the Singapore "style of government looks for the elimination of politics".⁶⁷ Market socialist governments in any case have a different mandate, which is especially viable in the Eastern constituencies. "The so-called market socialists feel that since economics and politics are so closely connected, the voters should rely on their elected government to control the economic system."⁶⁸

Heilbroner, one of the leading thinkers who foresaw that there must be repercussions if growth is reduced, predicted authoritarianism.⁶⁹ One writer has termed the Singapore system "corporate authoritarianism",⁷⁰ but others may

contend that even the United States and Britain are resorting to strong government. Of course, freedom does not succumb so easily in open societies. Although the market socialist formula is not exactly the freedom envisaged by Friedman, it relies upon free competition just as much.⁷¹

The production cycle — and the dilemmas of that circumstance dwelled upon in this paper — is not curtailed, but market forces are seen to indicate a need for circumventing the “dilemmas” to maintain progress. The market-oriented, planned society sees the long-range market imperative, as Heilbroner did, and responds.

The response so far in Singapore has been a carefully orchestrated social adjustment in terms of upgrading, and perhaps eventually reducing, the labour force. In the Second Industrial Revolution “everyone seems to gain, except perhaps the worker whose skills are being replaced by a chip.”⁷² Although the plethora of social changes that micro-electronics is supposed to usher in⁷³ may be oversold, what will inevitably change is labour economics. Just as the industrial form of production has historically proven to be superior to the craft form in terms of labour cost (hence economic efficiency), so now the micro-electronic form is taking this truth one giant step forward. But rather than incur resistance from labour and other vested interests, Singapore’s political economy facilitates it.

Market socialism is not universally applicable — the appropriateness of “industrial policy” is still being debated in the United States. But, to conclude the discourse on this particular strain of capitalism, what is being suggested here is that this ideology as applied in Singapore, coupled with the economics of the Second Industrial Revolution, could provide one mechanism to bridge the gap between development and idealism.

Wherever long-term development aims are formulated, demography would, of course, be a factor. But is the Singapore government really thinking in the way implied here — are they so daring to speak of population reduction? Well, not quite, but Second Deputy Prime Minister Rajaratnam on 23 August 1983 advocated “Third Wave” futurism, saying:

The technology of production now makes it possible to increase gross national product while decreasing the labour force

Because labour power will in future be less important, Asia must reduce dramatically and drastically its rate of population growth. In the New Age, what will count most is not the size of a population but its quality.

However, the way to the New Age is very uncertain.⁷⁴ The danger, of course, is that we will see the future too unclearly or react to it too slowly. The Information Age may create worldwide awareness, but the Age is not yet here.

A problem with the Second Industrial Revolution approach is that the economics is not so clearly convenient. Especially in recession, governments will find it difficult to stick to ideal plans. Furthermore, the degree of co-ordination and control necessary to manage a population decline without coincident economic

decline may present insurmountable problems. There seems to be no encouraging historical precedent, especially not in modern industrialized, capitalist societies. World experience indicates a need for economies to grow to provide sufficient dynamism in the opportunities of its members; and conversely, growing economies have traditionally required a growing labour force to meet the demands of capital. It may be difficult to dissuade conventional policy orientation away from the imposing set of advantages, associated with a large labour pool, domestic demand, and so forth, which favour substantial populations.

On the other hand, it is becoming evident that the labour burden may in some ways be an impediment to progress. "The secular decline in rates of return on capital in many (developed) countries has been partly associated with an increased share of labour in value added . . . and the resultant squeeze in profitability has hindered investment".⁷⁵ When "population management" develops as a field of endeavour, the association between the problems of excess population and excess labour (unemployment) may be delineated.

Singapore has the unusual opportunity to treat the potential loss of routine jobs from automation as a boon rather than a social problem, because unemployed foreigners go home. In June 1982, the government announced a plan to send most non-skilled foreigners home by 1992, stressing a need to "mechanize, computerize and automate" to eliminate those jobs. If the government could muster the social schemes to control the political problem of displacing workers, this small city-state could act as a precursor, especially for advanced nations, by demonstrating that income per capita can be manipulated through the denominator of the ratio.

A recommendation⁷⁶ that Singapore's planners should stress service industries rather than manufacturing is worthy of note. It was pointed out earlier that, if resources become scarce or markets for goods are saturated, service industries may be the wave of the future (along with micro-electronics); and they are certainly cleaner and take up less space. Recognizing the values that will be most important in the far future, which must derive from "quality of life" issues associated with the detriments of urban living, Singapore could conceive a target carrying capacity for the island and restrain unplanned overbuilding, especially of assets where idle capacity or disinvestment can be costly (manufacturing).

The fiscal dexterity which might achieve this feat of control may be even more than Singapore can manage. However, the first, modest step is an attitudinal reposturing, a simple apperception that per capita benefit may be maximized with smaller gross economic expansion.

Is it conceivable that a free society can renounce the expediency of responding primarily to development interests?⁷⁷ The Singapore government has the power of success and the respect of its constituency and may set its own course in an imaginative application of its "sixth sense". In fact, the Singapore competitive-cooperative approach may be closer than any other contemporary model to finding the "right" course for development.

These dilemmas have been discussed by idealists for centuries, and with increasing perspicacity and urgency in recent decades; but perhaps the only resolu-

tion that can be expected now is what this writer has indicated is occurring in Singapore. It can only be hoped that Singapore's success (the "end", rather than the "means" which may be inappropriate for many countries) will be recognized in the context presented here, that is, with population management as a viable policy priority.

Perhaps a prerequisite to the consideration of such esoteric issues is for Singaporeans to first appraise their idealism. Singapore's best hope of ameliorating the impact of change indeed resides in the creative spirit and aspirations of its citizenry. The exceptional competence and assiduity of Singaporeans make dreams possible. Their ideology might appropriately be evolving around a dream of "the good life", and economic liberty concomitant with a sense of community. The teamwork exhortations of Lee Kuan Yew emphasize the value of co-operation to lessen the intensity of the competitive tendencies of this society. We are slipping here into profound questions of sociology, even religion, well beyond the scope of this paper. Suffice it to note that the integrity and happiness of the community can be enhanced, or adversely affected, by the interplay of competition and, especially, growth.

On the other hand, Toffler clearly shows the fallacy in foisting the sublimity of ideology on sensible cultures, for there is only one legitimate modern ideology anyway, the mundane "super-ideology"⁷⁸ of Industrialism. Even so, the magic word, "development", does not excuse an unquestioning attitude.

What is necessary is an unflagging respect for the world as we find it and for dissent and diversity . . . in spite of the mounting impressiveness of the technical-rational structure bourgeois . . . society is building. Above all, there must be a concern . . . for those who will follow us — those who in the future may experience their problems differently and would not want to find that we have already — unnecessarily and unwisely — foreclosed their choices and altered their natural and social world irretrievably.⁷⁹

NOTES AND REFERENCES

1. Harry G. Johnson, *On Economics and Society* (Chicago: University of Chicago Press, 1975), pp. 324-26.
2. This term was made famous by Joseph Schumpeter.
3. Anthony Rowley, "Schizophrenia of Growth", *Far Eastern Economic Review*, 25 December 1981.
4. John K. Fairbank, *China Perceived* (London: Andre Deutsch, 1970), p. 208.
5. Karl Polanyi, "The Economy as Instituted Process", in *Trade and Market in the Early Empires*, edited by Polanyi et al. (Glencoe, Illinois: The Free Press, 1957).
6. *Ibid.*, and Terence K. Hopkins, "Sociology and the Substantive View of the Economy", in Polanyi et al., eds.
7. Alan Fox, *A Sociology of Work in Industry* (Collier Macmillan, 1971).
8. Polanyi and Hopkins, *op. cit.*

- 9 Ezra F. Vogel, "Guided Free Enterprise in Japan", *Harvard Business Review* 56, no. 3 (May 1978).
10. Many would insist that the competitive ethic is, in fact, a universally applicable concept. "Over long periods of time the persistent expansion of competitive institutions . . . has resulted in the wide-spread acceptance of intense competition as a desirable and even inherent human value." See Robert C. North, *The World That Could Be* (New York: W.W. Norton and Company, 1976), p. 39.

Competition is seen by "social Darwinists" to be in the very nature of survival of any life-form through the evolutionary process of "natural selection" as explained by Julian Huxley. Conversely, nature as perceived by Buckminster Fuller evolves whole systems out of separate parts through co-operation.

It should be clear, of course, that these arguments cannot be settled. Which alternative we philosophically embrace is happenstance; we then guide our rationality to justify our choice: competition. This intellectual process is the essence of capitalist ideology.

(The arguments will be represented later as a dichotomy.)

11. Sociological ramifications of our "uncongenial life-styles" are relegated to others to address; see Robert L. Heilbroner, *The Human Prospect* (New York: W.W. Norton and Company, 1974), p. 138. Instead, we develop here an economic thesis.
12. P.T. Ellsworth and J. Clark Leith, *The International Economy* (New York: MacMillan Publishing, 1975 [5th ed.]), ch. 11.
13. Talcott Parsons and Neil Smelser, *Economy and Society* (London: Routledge and Kegan Paul Ltd., 1956), pp. 20-22.
14. Although in the contemporary world economy demand is not matching supply, Say's Law is still accepted as generally relevant.
15. Herman Kahn, *The Coming Boom* (London: Hutchinson Publishers, 1982), ch. 4.
16. W.W. Rostow, *Getting From Here To There* (New York: MacMillan Press, 1978).
17. Alvin Toffler, *The Third Wave* (New York: Bantam Books, 1980).
18. Robert M. Solow, "Is The End Of The World At Hand?", in *The Economic Growth Controversy*, edited by A. Weintraub et al. (New York: MacMillan Press, 1973), p. 48.
19. Dennis L. Meadows, *The Limits To Growth* (London: Pan Books, 1974), p. 23.
20. A dual dilemma of course has been discerned by other writers. For example, one article noted, "two major motifs have emerged which impel us to adopt negative growth policies: environmental degradation and paradoxical counterproductivity". See Ivan Illich, "Vernacular Gender", *Alternatives* (September 1982), p. 298.
21. For example, "looming ecological disaster" threatens Asia, as an ESCAP report predicts more than two-thirds of the region's forests may disappear by the year 2000; see Michael Richardson, "Letter from Bangkok", *Far Eastern Economic Review*, 28 May 1982. *Global 2000 Report to the President* (U.S. Department of State, 24 July 1980) projects the possible loss of 20 per cent of the earth's life species by the year 2000. Concerning the "greenhouse effect" from burning fossil fuels, the Environmental Protection Agency warns that significant warming will occur by the 1990s (*International Herald Tribune*, 19 October 1983), p. 1. Also, "acid rain" is an accumulating problem.

There is evidence that modernization improves society's environmental protection abilities; for example, Indonesia has banned log exports from 1985, India has avoided extinction of its tigers, and Singapore is cleaning its river. But rear-guard actions still only partially compensate for the world's ongoing "urban sprawl".

22. Robert Frost.
23. There may still be exceptions (perhaps Burma), but they are of relatively little consequence.
24. Robert Fuller, "After Keynes, 'Fair Share' Policy Needed", *Worldwatch*, 6 February 1980.
25. Bob Kuttner, "The Free Trade Fallacy", *The New Republic*, 28 March 1983.
26. See, for example, Paul A. Volcker, "International Monetary Cooperation in the 1980s", *Dialogue* (Spring 1983).

27. Japan urged "a sort of industrial cooperation rather than competition" to adjust to world recession; "Japan sees Cooperation as Answer to Trade Woes", *Business Times*, 11 February 1983, p. 1. Another example: The European Community in November 1983 announced an international co-operative arrangement to improve their market position in the computer industry.
28. For a more extensive social design, see Dennis Clark Pirages, ed., *The Sustainable Society* (New York: Praeger Publishers, 1977).
29. Heilbroner, op. cit., p. 84.
30. Herman Kahn et al., *The Next 200 Years* (London: Associated Business Programmes, 1977), p. 50.
31. Johnson, op. cit., p. 334.
32. Heilbroner, op. cit., p. 134.
33. Solow, op. cit., pp. 49-55.
34. Johnson, op. cit., ch. 21.
35. However, many socio-economic problems will persist. For example, "... The long-awaited recovery is now underway, but ... a sizeable unemployment problem will remain ..."; see "The Employment Imperative and Labour Market Policies", *OECD Observer*, September 1983. The fair-share response is to suggest schemes like "work-sharing" (ibid.), but such proposals inevitably imply a co-operative intervention in the processes of free enterprise which is still many decades removed from practicality.
36. *Business Week*, 24 July 1978.
37. For example, radical economics may interpret inflation as a manifestation of an imbalance between the earth's natural systems and mankind's increasing claims upon them. Indeed, the cumulative expansion of world incomes mankind has allotted himself may well exceed the growth in real wealth divvied up in the market-place, which defines inflation; see Johnson, op. cit., p. 197.
Similarly, unemployment may reflect a rebellion by modern, automated enterprise against increasingly expensive and numerous job-hunters depending upon the enterprise for livelihood — a case of a deluge of opportunists and a dearth of opportunity. In a strict sense, who can deny that in those countries where unemployment exists population levels do exceed the ability of the economy, at least at that moment, to productively accommodate the present employment system?
- To develop these themes fully (and other themes concerning poverty, urban problems, work alienation, even international tension and individual freedom, etc.) would require a complex exposition beyond the scope of this paper.
38. Barbara Ward, *The Rich Nations and the Poor Nations* (New York: W.W. Norton and Company, 1962), p. 101.
39. Heilbroner, op. cit., p. 136.
40. Herman Kahn et al., *The Year 2000* (New York: MacMillan Press, 1970), p. 393.
41. Richard N. Farmer and Barry M. Richman, *Comparative Management and Economic Progress* (Bloomington, Indiana: Cedarwood Publishing Company, 1970), p. 404.
42. Aging, international migration, and other quandaries, especially moral challenges to birth control, dissuade political leaders from taking this issue on (since Indira Gandhi's failure in India). The United Nations World Population Plan of Action has been low-key in its approach. Society must want to reduce its numbers, which has not happened. An economic rationale is crucial (to be developed in the last section of the paper) and is evolving. With the high cost of education, the transition of children from asset to liability is now obvious. In the 1980s, the world is encouraged that zero-growth population is finally on the horizon, and we hope to reduce the future equilibrium to around six billion, at best. Zero growth has just been reached by much of Western Europe. But the socio-economic desirability of depopulation is not yet even a topic for conjecture. The popular prejudice is that overpopulation is a problem for poor countries only; but the greater appetite of the wealthy "may impinge upon the patrimony of other, less fortunate peoples in the decades ahead. The 'population problem' of the developing countries may be more pressing at this time, but in the longer perspective, it is both proper and in our best interests to participate fully in the worldwide search for the good life ...". See "Perspective on Population", *The Report of the Commission on Population Growth and the American Future* (1972), p. 13.

43. Some may view the basic world issue otherwise, for example, concomitance of poverty with wealth. However, it is contended here that all such conceptions still fall within the dichotomy of the Free Trade Movement versus social control of economic relations. The poor countries argue that the FTM does not work in their favour and insist on a New International Economic Order which represents a form of intervention in the FTM to redress inequities.
44. The particular characterizations tabulated here may be biased by Western epistemology. This point will be addressed later.
45. Scott Nearing, *Living The Good Life* (1954).
46. However, Singapore aspirations, couched in economic practicality, may show world society that it is possible to profitably pursue a more ideal destiny. See the next section of this paper.
47. Alvin Toffler, *Future Shock* (New York: Random House, 1970), p. 166.
48. Heilbroner, op. cit., p. 132.
49. Rostow, op. cit., p. xxxiii.
50. The free enterprise system is acclaimed by many to be the ultimate in idealism, because sovereignty resides in the individual. The fundamental ideal, as espoused, for example, by Milton Friedman in *Free to Choose*, is that the free pursuit of (enlightened) self interest permits anonymous rule of society by the market. The antithesis, statism, is a perpetual (albeit benevolent) imposition.

There is a pernicious inference from this view. Whether the world economy grows or stagnates, escalating international competition can be perceived as posing a risk to not only the natural environment but freedom and peace. "National governments — sensing the threat of this growing economic interdependence — become more and more pervasive in the lives of their peoples" (Richard D. Robinson, Dinner Talk [Singapore], May 1984). There is a similar threat in overpopulation. "By definition, population control and reproductive freedom are incompatible" (Kingsley Davis, "Zero Population Growth", *Daedalus* [Fall 1973]).
51. Saw Swee Hock, *Population Control for Zero Growth in Singapore* (Singapore: Oxford University Press, 1980).
52. The ensuing discussion is more oriented on the dilemmas of growth, not recession. As noted earlier, recession only aggravates the difficulties of development.
53. Of course, fiscal and monetary parameters affect actual growth, but the ultimate limit to equilibrium growth is set by labour and its tools.
54. John F. Due and Ann F. Friedlaender, *Economics of the Public Sector* (Homewood, Illinois: Richard D. Irwin, Inc., 1977), p. 602.
55. Tony Tan, "How We Can Put the Economic Recession To Good Use", in *Our Heritage and Beyond*, edited by S. Jayakumar (Singapore: NTUC, 1982).
56. Of course, market socialism is not a new concept nor is it unique to Singapore. But it will be argued here that the particular application in Singapore is special. "State capitalism" may be a more rigorous academic term for the context in this paper, but "market socialism" seems more descriptive and will be used. The Oskar Lange model of the 1930s for competitive socialism in the Eastern bloc popularized the concept. See Wayne A. Leeman, ed., *Capitalism, Market Socialism, and Central Planning* (Boston: Houghton Mifflin Co, 1963), pp. 17–27. For an early analysis of the role of government leadership in open economies, see Walter Eucken, *The Foundations of Economics* (London: William Hodge & Co., London, 1950). He portrayed Germany as a "controlled market economy".
57. To characterize Confucianism as the key source of social differences is only supposition. Japan may attach more importance to Shintoism. The point here is that the role of leadership is differently perceived by both rulers and constituencies. The "ruler was to assume the parental duty . . . The doctrine of the Mandate of Heaven and government by virtue" gives rulers authority, and by the same reasoning the people tend to be amenable; see Wu Teh Yao, "The Traditional Chinese Concept, Strategy and Art of Governance" (Nanyang University Occasional Paper, 1976), pp. 20, 11.
58. Peter L. Berger, "Democracy for Everyone?", *Commentary*, September 1983.
59. Ibid.

60. "The government's social engineering policies pervade most aspects of Singaporean life, from kindergarten to colleges, workplace to trade unions, neighbourhood organizations to club houses" (*Far Eastern Economic Review*, 12 January 1984). See also *International Herald Tribune*, 17 October 1983, Supplement 1.

To illustrate, some of the slogans include:

1. Make courtesy our way of life,
2. Speak Mandarin at work,
3. Productivity counts,
4. Together we work better.

Since the government owns or controls the key media (radio, TV and newspapers), their campaigns are well promoted. Ministers deliver papers, more in the style of scholars than politicians, on productivity, teamwork, and other government priorities.

Government monetary incentives are utilized even more than in most Asian societies. There are the usual tax incentives for prescribed investments, etc.

But some policies are more controversial; for example, taxes, school fees and other incentives to encourage two-child families. This programme worked. Then in early 1984 the Prime Minister received international publicity for his concern that educated mothers are not reproducing as much as the uneducated. This is a worldwide circumstance, but "never before have the leaders of a fully-enfranchised society dared alter the pattern of procreation" ("Breeding the Brightest", *Asiaweek*, 2 March 1984, p. 23.) Soon new rules were announced. Also, by the mid-1980s there were indications that fiscal measures, expressways and mass transit programmes would successfully contend with one omnipresent urban problem: "It is a problem that would be the envy of Singapore's less-developed neighbours — how to get an increasingly affluent population to forego private-car ownership" (Lincoln Kaye, "A Car as a Luxury", *Far Eastern Economic Review*, 10 November 1983, p. 29).

61. Although the government has recently abdicated its direct role, the system seems essentially the same "cooperative" approach.
62. Chan Heng Chee, "The Emerging Administrative State", in *Singapore Towards the Year 2000*, edited by Saw Swee Hock and R.S. Bhathal (Singapore Press, 1981), p. 10.
63. Wu, op. cit., p. 11.
64. E.C. Ladd, "U.S. Politics in the 1980s", *Dialogue* 4 (1983).
65. See, for example, Charles L. Schultze, "Industrial Policy: A Dissent", *The Brookings Review* (Fall 1983).
66. Frederic C. Deyo, *Dependent Development and Industrial Order* (New York: Praeger Publishers, 1981), p. 112.
67. Chan, op. cit., p. 11.
68. John D. Daniels et al., *International Business* (Reading, Massachusetts: Addison-Wesley, 1982 [3rd edition]), p. 54.
69. Heilbroner, op. cit., p. 90.
70. Deyo, op. cit. See also Stephen Milne, "Corporatism in the ASEAN Countries", *Contemporary Southeast Asia* 5, no. 2 (September 1983).
71. See, for example, Henry C. Wallich, *The Cost of Freedom* (New York: Harper Publishers, 1960), p. 36.
72. Herbert S. Dordick, "The Emerging World Information Business", *Columbia Journal of World Business* (Spring 1983), p. 74.
73. See, for example, Club of Rome, *Microelectronics and Society* (Oxford: Pergamon Press, 1982.)
74. Advanced societies are already reducing population growth, but France attempts to counter the natural trend, even though "for Europe in particular unemployment is increasingly a structural problem . . . and recovery alone will not provide the solution". (Emile Van Lennep [OECD General Secretary], "Recovery Alone is not Enough", *OECD Observer*, November 1983, p. 3.) Concerning Singapore's birthrate, the Prime Minister on 17 August 1983 reaffirmed "we can bring this down", but he was chagrined that the better educated were not reproducing. The Malaysian

government is "calling for an ideal Malaysian population next century of 70 million, which would be 56 million more than at present" (*Far Eastern Economic Review*, 23 February 1984, p. 56).

75. *OECD Observer*, September 1983.

76. Pang Eng Fong and Linda Lim, "Singapore's Foreign Labour", *Straits Times*, 24 August 1981, p. 16.

77. Development interests include the construction industry, an octopus with many tentacles — suppliers, labour, property interests, and so forth. In a broad sense, development interests really include the entire community, which will strongly resist any very severe adjustments.

78. Toffler, *Third Wave*, p. 99.

79. Kahn, *The Year 2000*, p. 413.

Emerging Third World Multinationals: A Case Study of the Foreign Operations of Singapore Firms

RAJ AGGARWAL

Abstract

This paper forms the first systematic examination of the foreign operations of Singapore industrial and commercial firms listed on the Stock Exchange of Singapore. It was found that out of a total of fifty-two such firms, nearly four out of five have foreign operations, and more than three out of five have operations in countries other than in Singapore and Malaysia. This is a remarkably high proportion given the opportunities available for reinvestment in a rapidly growing internal market. While most of these foreign investments were in the other countries in the Southeast Asia region, Singapore firms are also beginning to undertake significant foreign investments in developed countries. Thus, while very few Singapore firms are true multinationals, a significant proportion have extensive investments in operating affiliates in foreign countries.

Introduction

Multinational corporations (MNCs) have historically been considered indigenous to the more economically advanced countries, and virtually all studies of the economic and political impact of these enterprises have proceeded from that premise. While this notion regarding the native habitat of the MNCs was quite accurate in the past and remains largely so today, a growing number of exceptions — in the form of companies investing abroad and conducting international operations from bases in less-developed and newly industrialized countries (LDCs and NICS) — are being noted. The data which has been accumulated on these NIC multinationals is still sketchy, but some observers of the international business scene have posited that these firms constitute a significant ascending force, and that their emergence may have profound effects upon the pattern of international business activity, as well as upon political and economic relationships among nation-states. As an example, it has been contended that MNCs from developed countries such as the United States, Japan, and Western Europe are facing increasing levels of competition from newly industrializing country multinational companies (NICMNCs), especially in other developing countries.¹

Such an assessment of the potential impact of the NICMNCs is based largely upon the idea that these firms possess several inherent advantages *vis-à-vis* multinational companies from the developed countries and that those advantages

are being buttressed by certain political and ideological movements which make the NICMNCs more "acceptable" as international direct investors. Considerable emphasis is also placed upon the formal or informal alliances which exist between these enterprises and their respective home governments in expanding and projecting their rising influence in the international business arena.²

The first part of this paper consists of a brief global survey of the recent growth and current status of the NICMNCs. It deals with the scope and character of their international operations and with the characteristics of geographic areas in which these emerging multinationals operate. In this part, the information on the nature and characteristics of the worldwide activities of these enterprises is used to compare the activities of the NICMNCs with the activities and characteristics of multinationals based in developed countries. The second part of this paper examines the nature of the foreign operations of Singapore-based industrials — a group of companies that have not been studied in published literature. The paper concludes with a discussion of some of the implications of the findings.

Recent Growth of NICMNCs

Early multinational firms such as the British and Dutch East Indian trading companies have often been seen as an outgrowth of the technological and economic lead enjoyed by the European colonial powers over other nations at that time. In the post-World War II era, the economic and technological leadership passed from the European colonial powers to the United States. Consequently, the post-World War II era saw the emergence and dominance of multinational firms from the United States with a decline in the relative size and importance of most of the now mature multinationals from the former colonial powers.

Thus, for much of the post-World War II era, the international business system was dominated by multinational firms headquartered in the United States and in 1966 American direct investment alone accounted for well over half the world total. However, as Europe and Japan have rebuilt their post-war economies and their technological sophistication, the now-maturing United States multinationals have begun to face increasingly stiff competition and challenge from the new European and Japanese multinational firms. The American hegemony diminished in the 1970s as firms based in Western Europe and Japan aggressively expanded their international activities and even the United States market became a competitive battleground.

While multinationals from America, Western Europe, and Japan have been vying for market positions worldwide, multinationals based in other countries that are usually classified as being part of the Third World have emerged as serious contenders in the marketplace. Table 1 summarizes the results of a Conference Board study of the changing composition of the 100 largest firms in the world.

According to this study, the proportion of United States firms in the world's 100 largest industrial corporations declined from 67 per cent in 1963 to 58 per cent in 1971 and to 48 per cent in 1979, while the proportion of Western European and

TABLE 1
CHANGING COMPOSITION OF THE WORLD'S 100 LARGEST FIRMS
(In per cent)

<i>Geographic Origin</i>	<i>1963</i>	<i>1971</i>	<i>1979</i>
U.S. Firms	67	58	48
Western European and Japanese Firms	27	31	37
Other (Third World) Firms	6	11	15

Japanese firms increased from 27 per cent in 1963 to 31 per cent in 1971, and to 37 per cent in 1979. The percentage of firms from other countries also increased from 6 per cent in 1963 to 11 per cent in 1971 and 15 per cent in 1979. Similar patterns emerge when other data relating to the foreign direct investment activities of United States multinationals are examined in relation to the foreign direct investment (FDI) activities of European and Japanese multinationals.³

Thus, the internationalization of large firms seems to have followed a pattern consistent with the international product life-cycle theory. The phenomenon of widespread firm internationalization seems to have re-started in the United States in the post-World War II era. As it moved towards maturity among the U.S. firms, it started among large Western European and Japanese firms and now has similarly moved on to influence large firms in other newly industrialized countries.

As would be expected from the product life-cycle hypothesis, European and Japanese multinationals are now being challenged by the emerging multinationals from the NICs and from the larger, less developed countries. As an example, consider the fact that Korean steel, shipbuilding, and motor-cars (for example, the Pony) are already displacing Japanese production of these products. Of course, there are now countless other examples of companies from Brazil, Taiwan, India, and other Third World countries that are successfully competing for a share of the world market. The Harvard project on multinationals has estimated that there are now more than 1,000 developing-country firms with operations in one or more countries outside the home base. The listing by *Fortune* of the 500 largest corporations outside the United States also shows that close to 10 per cent of them are located in NICs or LDCs.⁴ As the NICs experience rapid economic growth and move towards increasing sophistication in the technology employed, the larger firms in these countries can be expected to experience pressures for engaging in foreign direct investment as experienced by the firms in the more mature economies at an earlier time period.

Therefore, it can be expected that the early wave of multinationals from the largest and most technologically sophisticated countries will continually face competition and other challenges from newer multinationals from the countries that have undergone more recent economic and technological growth. The next part of this paper explores the nature of this strategic development.

The Nature of NICMNCs. Previous studies on the nature of the NICMNC phenomenon can be subdivided into three categories. The first category focuses on the overall features of NICMNCs in a given country, such as the study of NICMNCs in Thailand. NICMNCs from Hong Kong, Korea, and India, and other small countries and Latin America are examined by the second category of studies. The third category of studies examine the NICMNC phenomenon in general.⁵ Previous research on NICMNCs has focused primarily on their overall characteristics especially with regard to their growth patterns and their geographic and industry concentration. Preliminary results of a comparative analysis of this literature indicates that while NICMNCs are similar to MNCs from developed countries in many respects, they also have certain unique characteristics.

Motives for foreign direct investment that NICMNCs share with other MNCs include the restricted opportunities for domestic growth because of anti-trust and market size reasons and the need to protect export markets. In contrast to other MNCs, NICMNCs usually receive aid and encouragement from the home country government to undertake foreign investment. Their investment strategy is generally characterized by the concentration of investment in countries that are geographically and culturally close to the home country, with the formation of joint ventures with local and other investors as an overwhelming mode of foreign affiliates. Most foreign operations of NICMNCs emphasize low-cost, labour-intensive, smaller-scale operations using mostly intermediate-level technology serving markets that would be considered too small or hostile in most cases for developed country MNCs. While in a number of countries NICMNCs were also considered less of a threat to host government objectives than were developed country MNCs, it should be noted that the former have not completely escaped the political risks of expropriation or forced sale of equity even at this early stage of their growth cycle.

Thus, it seems clear from this preliminary literature survey that a significant number of NICMNCs are feeling the same pressures and urges to move into the international arena that MNCs from developed countries have experienced, and that they are pursuing this course with considerable perspicacity and elan. The rapid growth of their overseas activities attests to the vigour and effectiveness of their efforts and adds more weight to the proposition that the emergence of the NICMNCs is a development which definitely merits the attention of everyone concerned with multinational business enterprise and the international economy. Consequently, it has been contended that just as in the 1970s we saw the emergence of MNCs from developed countries other than the United States, the 1980s is likely to witness the emergence of MNCs from countries that are and may still be considered to be Third World countries.

Outward Foreign Investment and the Singapore Economy

Singapore, originally called "Temasek" or sea town, is an island city-state with a population of about 2.5 million and an estimated 1983 GNP (gross national

product) of about US\$15 billion. It is a managed free-enterprise economy where the government plays an important role not only in economic planning but also as a major owner of large segments of the economy. The government owns a number of major listed and unlisted companies through its holding companies such as Temasek Holdings, Sheng-li Holdings and MND Holdings. Examples of major companies in which the government has a controlling interest include financial institutions such as the Development Bank of Singapore (DBS) and the Post Office Savings Bank (POSB), and industrial firms such as the giant Keppel Group, Sembawang Shipyards, Neptune Orient Lines, Singapore Airlines, National Iron and Steel, Intraco, and others. In addition, the government owns all of the utilities and other economic infrastructure in Singapore. It is a major force in the property market through the Housing and Development Board, and the Urban Redevelopment Authority. Nevertheless, in sharp contrast to the situation in most other countries, Singapore Government-owned companies are dynamic, innovative and profitable. Singapore continues to provide an excellent environment for free-enterprise market-driven government and private enterprises and its economy has managed to compile a remarkable record of economic growth.

Singapore's 1983 per capita GNP of over six thousand U.S. dollars is second only to Japan in all of Asia. Singapore is one of the world's largest oil refining centres, a major supplier of electronic components to the world market, a major centre in this region for marine construction, and ship-repairing, and an international financial centre of growing importance. Furthermore, the Singapore economy is expected to continue to have one of the highest growth rates in the world over the next two decades.⁶

Thus, Singapore, the lion city, is an attractive and dynamic business setting and its government has attracted a large amount of inward foreign investment from other countries. With a rapidly growing and dynamic internal market why should Singapore-based firms invest in foreign operations especially since foreign markets can also be served through exports and by licensing arrangements with local producers? The next section attempts to answer this question.

Motives by Singapore Companies to Invest Overseas. One of the primary reasons why Singapore-based firms might want to invest overseas is the limited size of the local market for their products. In addition, while a number of its foreign markets can be served by exports from Singapore, there are a number of problems in depending solely on this strategy. One problem is that of possible protective actions by the foreign host government by imposing tariffs, quotas, or other non-tariff barriers to impede imports and to generate or protect local employment. As an example, it is the announced policy of the Indonesian Government to reduce its economic dependence on Singapore-based firms and, in the recent past, even the industrialized countries have started erecting higher walls of protectionism. Another problem arising from dependence on exports to service foreign markets is the limited ability of such a firm to monitor and meet competition from lower-cost local producers.

Moreover, since the majority of the world's trade consists of movements of goods and services among affiliates of the same company, a Singapore company may indeed be able to increase its exports if it has direct investments overseas. An additional advantage of foreign direct investments is that as productive capacity and the size of a firm increases, it can take advantage of economies of scale in administration, marketing, finance, and research and development. As an example, corporate administrative costs can be spread over a larger volume of output as can the costs of developing a market strategy or the floatation costs of financing. The same can be said for the research and development costs of developing and introducing a new product.

A second reason why Singapore-based companies may want to invest overseas is their desire to obtain access to cheaper sources of raw material, labour, and an environment of lower taxes and fewer government regulations. Thus, Singapore companies may go overseas to satisfy the need for reliable sources of raw materials and an increasing need for access to labour that is cheaper than that available in Singapore. In order to ensure steady supplies of raw materials in the face of shortages or other market disruptions, a company must own and control the source of its raw materials. Ownership of the sources of raw material also gives a company other advantages traditionally associated with vertical integration, such as better quality control and higher overall profit levels. For Singapore-based companies, investment in sources of raw material would generally mean undertaking foreign investment. Singapore companies may also invest in countries (such as Hong Kong) that have lower taxes and fewer government regulations. An additional reason for undertaking foreign investment is that Singapore labour costs are rising rapidly, making a number of industries too high cost for Singapore. Companies in Singapore are also increasingly facing shortages of certain categories of labour, especially in the unskilled or less educated categories. Furthermore, Singapore companies using foreign guest workers face a particular problem since the Singapore Government has adopted a policy to reduce and ultimately eliminate the use of foreign workers. Those companies engaged in labour-intensive industries must, therefore, shift production overseas to countries with cheaper and more available labour in order to remain competitive. This has already been the case for a number of textile companies. An added advantage of undertaking foreign direct investment can be access to a wider variety of financing sources including subsidized financing designed to encourage investment in particular areas or industries.⁷

A third major reason why Singapore-based companies may find it useful to undertake foreign investments is to better exploit their comparative advantage in serving the markets of the neighbouring countries. Because of their geographic and cultural proximity, Singapore-based companies may find that they have better knowledge and skills for serving the markets in other Southeast Asian countries than do firms from other developed or developing countries. In addition, foreign investments by Singapore firms may be facilitated in the other countries of this region where the ethnic Chinese community is active in business and, thus, offers

the possibility of a local partner with a very similar operating style and approach to business as the Singapore firm. Thus, Singapore-based firms can also profitably form three-way joint ventures with firms from such countries and from the industrialized countries to serve the markets in the Southeast Asia region.

A fourth reason for Singapore-based firms to invest overseas is their need for acquiring reliable sources of new technology and market intelligence. These reasons are particularly true for foreign investments in the developed economies. While some technology may be acquired by the Singapore economy when advanced country multinational firms invest in Singapore, consistent access to higher levels of technology that will make and keep Singapore companies competitive in global markets can best be acquired through ownership of appropriate (small, high-technology) firms in the advanced countries. Fortunately, in many cases the entrepreneurs — starters of such companies — are looking for investors. In seeking high technology for their semiconductor industry, firms from Japan and even South Korea and Taiwan have found that making equity investments in small high-technology firms is one of the best ways and perhaps the only way in some cases, to acquire the technology they need. Recent reports indicate that Singapore is also encountering difficulty in upgrading its electronics industry and the only way out may be for its firms to engage in such FDI.⁸

Another reason for making investments in such advanced country firms is to acquire the knowledge and skills to compete effectively and consistently in the dynamic and ever changing markets of these advanced countries. Thus, in addition to the technical knowledge and managerial skills that a Singapore company can acquire from such an acquisition, it also acquires a continuing source of market intelligence that may contribute towards its ability to protect and develop its export markets. The need to make investments in advanced country firms is particularly urgent in view of the announced strategy of the Singapore Government to upgrade the level of technology being used by business and industry in Singapore.

Fifthly, in undertaking foreign direct investment, Singapore firms will also be able to diversify the political, economic, and business risks they face if they limit themselves to only one market or country. Adverse developments are unlikely to take place simultaneously in many different countries and, thus, while business in one country (say, Singapore) may be bad it may be much better in another country so that the overall performance of the firm is protected from the swings in any one country's political, economic, and business environment.

Another reason why Singapore companies may have overseas investments is that many of them are, or until recently were, managed by expatriate European managers and in many cases were part of a European multinational firm. These companies have become Singapore firms as the foreign owners and, in many cases, the foreign managers were replaced by Singapore citizens starting in the late 1950s.

Lastly, if Singapore-based companies have to continue to compete effectively in the global market place, especially against countries such as Hong Kong, Taiwan and South Korea they must make foreign direct investments in other countries in order to acquire the many advantages of being multinationals such as

those in Hong Kong, South Korea and Taiwan. These advantages include access to larger markets and to lower cost raw material, capital, labour and technology, as well as the increased ability to ride out and overcome tides of protectionism and other barriers to export markets. Furthermore, as pointed out above, a multinational firm can achieve lower overall costs through its many opportunities to rationalize over more than one market and country its production, marketing, and finance. Most of these advantages cannot be obtained through exports or licensing arrangements.

FDI by Singapore Industrials

Research Design and Data Sources. This section will examine the foreign direct investments of Singapore-based industrial firms listed on the Stock Exchange of Singapore (SES). The focus will be on overseas industrial and commercial investments rather than overseas investments in property, finance, plantations or other non-industrial areas. Such a focus should make this study more comparable to other studies of FDI and is more likely to contribute to our understanding of the nature and process of foreign direct investment by a firm.

There are a total of seventy-two companies listed on the SES which are incorporated in Singapore and classified as industrial or commercial firms. Of these seventy-two, twenty-four are large companies since they were among the one hundred companies with the largest assets listed on the SES at 31 December 1983. Thirty-six additional industrial and commercial firms are listed in section one of the SES, while the remaining twelve are listed in section two.

Thus, these seventy-two listed industrial and commercial firms can be classified into twenty-four large firms, thirty-six medium-sized firms and twelve small firms. However, twelve of the seventy-two are foreign-owned firms and an additional eight companies are actually only portfolio investors with no operating affiliates. Thus, there remain fifty-two Singapore-based industrial and commercial firms that are listed on the SES (see Table 2). These firms form the group that is the focus of this study.

Data sources used for this research project involved collecting both primary and secondary data. No official statistics are available from the Singapore Government regarding foreign investments by Singapore companies, especially since no official approval is required for such investments. Thus, all overall figures for Singapore FDI provided in this paper come from host governments. Another source of secondary data used in the first stage of this study is the business and general press such as the *Straits Times*, *Business Times*, the *Asian Wall Street Journal*, *Insight*, *Singapore Business*, and the *Far Eastern Economic Review*. Secondary data were also collected from the Stock Exchange of Singapore publications and corporate annual reports. For the second stage of this research project, primary data are being collected in a series of interviews with company officials, accounting firms, bankers, and government officials. The results of the second

TABLE 2
LISTED SINGAPORE INDUSTRIAL AND COMMERCIAL FIRMS

<i>Large Firms</i>	<i>Other Section One Firms</i>
1. Neptune Orient Lines	1. Acma Electrical
2. Keppel Shipyard	2. Allied Chocolate
3. Straits Steamship	3. Ben and Co.
4. Straits Trading	4. C.K. Tang
5. Cycle and Carriage	5. Chuan Hup Marine
6. Sembawang Shipyard	6. Eu Yan Sang
7. Haw Par Brothers	7. Hwa Hong Manufacturing
8. Fraser and Neave	8. Intraco
9. National Iron & Steel Mills	9. Jacks International
10. F.E. Levingston	10. Jurong Cement
11. Singapore Bus Service	11. Khong Guan Flour
12. Sim Lim Investments	12. Malayan Tin Printing
13. Malayan Breweries	13. Malaysian Feedmills
14. Wearne Brothers	14. Metal Containers
15. Times Publishing	15. Hytex
16. Pan Electric	16. Robinson and Co.
17. Metro Holdings	17. Sigma Metal
18. Jack Chia-MPH	18. Singapore Fodder Co.
19. Yeo Hiap Seng	19. Singapore News and Publications
20. United Industrial Corporation	20. Straits Times Press
21. Prima	21. Transmarco
22. United Engineers	22. United Pulp & Paper
23. Gold Coin	
	<i>Section Two Firms</i>
	1. Amcol Electrical
	2. International Wood Products
	3. Leong Huat Ind.
	4. SPP
	5. Tong Meng Ind.
	6. Van Der Horst
	7. Veneer Products

stage of this project involving the analysis of data collected through corporate interviews will be reported in a forthcoming paper. This paper reports the results of the first stage of this research project on the foreign investments of Singapore industrial firms.

Geographic Spread of Singapore Industrials. Table 3 classifies Singapore industrial firms according to the extent of their foreign operations. Of the fifty-two Singapore industrial firms, eight seem to have fairly extensive foreign operations,

TABLE 3
SINGAPORE INDUSTRIAL FIRMS WITH FOREIGN OPERATIONS
CLASSIFIED BY EXTENT OF FOREIGN OPERATIONS*

List A (With operations in many foreign countries)

Haw Par	L
Jack Chia-MPH	L
Jacks International	1
Keppel Group	
Keppel Shipyard	L
F.E. Livingston	L
Straits Steamship	L
Ben & Co.	1
Times Publishing	L

List B (With operations in two or more foreign countries)

Acma	1
Cycle and Carriage	L
Fraser & Neave	L
Gold Coin	L
Khong Guan Flour	1
Malayan Breweries	L
Metro Holdings	L
Transmarco	1
Prima	L
Sembawang Shipyards	L
Straits Trading	L
United Engineers	L
United Industrial	L
Van Der Horst	2
Wearne Brothers	L
Yeo Hiap Seng	L

List C (With operations in one or two foreign countries)

Ben and Co.	1
Chuan Hup Marine	1
National Iron & Steel Mills	L
Neptune Orient Lines	L
Pan Electric	L
Robinson & Co.	1
Singapore Fodder Co.	1
SPP	2
Veneer Products	2

TABLE 3 — (continued)

List D (With operations only in Singapore and Malaysia)	
Eu Yan Sang	1
Hwa Hong Manufacturing	2
Leong Huat Industries	2
Malaysian Feedmills	1
Metal Containers	1
Sigma Metal	1
Tong Meng Industries	2
United Pulp & Paper	1

List E (Listed industrials with no foreign operations)

Allied Chocolate	1
Amcol Electrical	2
C.K. Tang	1
Hytex	1
Int'l Wood Products	2
Jurong Cement	1
Malayan Tin Printing	1
Singapore Bus Service	1
Singapore News & Publications	1
Straits Times Press	1

* Classification based on a study of the companies' annual reports & data supplied to the Singapore Stock Exchange

L = Large industrials listed in Section One of the Singapore Stock Exchange and included in the *Business Times* 1984 list of the 100 largest companies.

1 = Other industrials listed in Section One of the Singapore Stock Exchange

2 = Industrials listed in Section Two of the Singapore Stock Exchange

fifteen have significant operations in two or more foreign countries, eleven have operations in one or two countries other than Singapore and Malaysia, another nine have foreign operations only in Malaysia, while the remaining ten do not seem to have any industrial or commercial foreign operations.

Thus, forty-two of the fifty-two Singapore industrials (80 per cent) operate affiliates in one or more foreign countries. This is a surprisingly large proportion in view of the small size of the Singapore economy and of Singapore firms. Since Malaysia and Singapore are geographically very close and since they used to be one country until relatively recently, it may be appropriate to view Singapore investments in Malaysia like U.S. investments in Canada. Nevertheless, thirty-three of the fifty-two Singapore industrials (63 per cent) have operations in foreign countries other than Malaysia.

Malaysia is the most popular location for FDI by Singapore companies with thirty-nine of the fifty-two companies operating affiliates in that country. The

importance of Malaysia as a recipient of Singapore investments is also indicated by the fact that in aggregate terms Singapore has been one of the largest investors in Malaysia. As of September 1981, the Malaysian Government had approved 623 projects by Singapore firms in Malaysia, with a total investment of S\$642 million (*Straits Times*, 23 November 1983).

Among the other developing countries, Hong Kong is the next most popular with investments by twenty-four of the forty-two (57 per cent) listed Singapore industrials that have foreign operations, followed by Brunei and Indonesia with eight firms each, Philippines with seven, Thailand with five, China with three, Sri Lanka with two, and one each for Papua-New Guinea, Tahiti, Mauritius, Oman, Liberia, and Zambia (see Table 4).

Singapore is emerging as a major foreign investor in a number of Asian developing countries. For example, as of late 1983, Singapore was one of the ten largest foreign investors in Sri Lanka with S\$316 million worth of investments (*Business Times*, 26 November 1983, p. 1). Singapore companies had made investments totalling US\$135 million in Indonesia (1967-80) making it the country with the seventh largest investment in that country. Singapore is also a major investor in Thailand with US\$697 million (invested in the period 1972-81) making it second only to Hong Kong as a foreign investor in Thailand (*Singapore Business*, February 1983).

Among the developed countries, the United Kingdom received foreign investments from ten listed Singapore industrials, Australia from seven, the United States from six, New Zealand from three, and the Netherlands from one. In 1982, overall Singapore investments in Australia totalled more than A\$1.4 billion (*Singapore Business*, January 1984, p. 60). While this paper is not directly concerned with overseas portfolio investments, it is interesting to note that the

TABLE 4
COUNTRIES WITH FOREIGN OPERATIONS BY LISTED SINGAPORE
INDUSTRIAL FIRMS

<i>Developing Countries</i>		<i>Developed Countries</i>	
<i>Country</i>	<i>Companies</i>	<i>Country</i>	<i>Companies</i>
Malaysia	39	United Kingdom	10
Hong Kong	24	Australia	7
Brunei	8	United States	6
Indonesia	8	New Zealand	3
Philippines	7	Netherlands	1
Thailand	5		
China	3		
Sri Lanka	2		
Papua-New Guinea,			
Tahiti, Maldives,			
Mauritius, Oman,			
Liberia, Zambia	1 (each)		

Government of Singapore Investment Corporation had over US\$15 billion invested overseas (mainly in the United States) in early 1983 (*Fortune*, 21 March 1983). Its investments include U.S. property, liquid debt instruments, and less than 5 per cent ownership of a number of large companies. Thus, as this brief review suggests, Singapore firms are engaging in considerable foreign investment that is flowing in a direction opposite to that indicated by traditional theories of foreign direct investment.

A review of the geographic spread of the foreign operations of Singapore industrials indicates that the Southeast Asian region, and in particular Malaysia, has received the most attention. Only very minor investments have been made in the Middle-East or Africa. Among the developed countries, Australia and New Zealand because of the proximity in geography and similarity in business and legal practices have received significant Singapore private investments as has the United Kingdom which also has a similar business and legal system. Another example of significant reverse foreign investment is the United States since it is the largest trading partner for Singapore and is also seen as a source of new technology.

Industry Influence on Foreign Operations. Table 5 summarizes the foreign operations of Singapore industrial firms according to their industry classification. However, industry classification of Singapore firms should be viewed with some

TABLE 5
FOREIGN INVESTMENTS BY LISTED SINGAPORE INDUSTRIAL FIRMS

Industry	Companies			
	Total Number	Extensive Foreign	Only in Malaysia	None Foreign
Food Processing and Distribution	11	8	2	1
Marine and Civil Construction and Engineering	11	6	3	2
Pharmaceuticals, Toiletries and Housewares	6	3	3	0
Manufacture of Engineering Products	5	3	1	1
Retailing	4	2	1	1
Natural Resource Processing	5	3	1	1
Packaging	3	0	1	2
Publishing	4	2	0	2
Other (Misc.)	2	1	0	1

Note: Industry classification should be viewed with caution especially since a number of larger firms are conglomerates with operations in many industrial areas.

caution, especially since the larger firms are conglomerates and conduct business in many different industry categories. Thus, a firm's industry classification in this section refers only to what can be considered to be its major line of business.

One of the two major industries with the most international operations is Food Processing and Distribution with ten of the eleven firms in this group operating in a foreign country and eight of the ten in countries other than Singapore and Malaysia. The other major industry with extensive foreign operations is the Marine and Civil Engineering and Construction Industry with nine of the eleven firms operating overseas and six of the eleven in foreign countries other than Malaysia. Singapore has the locational advantage for the Marine Engineering and Service Industry and some of its largest industrials are engaged in this business successfully competing for their niche of the market with firms like McDermott and Brown and Root from the developed countries that have extensive operations in Singapore. Similarly, because of the large domestic market for Civil Engineering and Construction, Singapore companies in this industry, such as the Marine Engineering and Construction Industry, have been able to develop the knowledge and skills that give them the firm specific advantages necessary to undertake successful and profitable foreign operations.

Two other industries with significant foreign operations are the Pharmaceuticals, Toiletries and Housewares Industry and the Engineering Products Manufacturing Industry. Firms in these industries seem to have acquired the knowledge and skills to survive and compete in the most sophisticated market for these products in the Southeast Asia region and, therefore, are able to use these skills successfully in the other countries of the region to maintain an advantage over other firms. Some firms in these industries have also made investments in the developed countries, perhaps in order to acquire a reliable source of market intelligence and high technology. Firms in the Retailing and the Natural Resource Processing Industries also seem to be motivated by similar factors when investing overseas.

While Singapore firms have started undertaking extensive FDI, they are still early in the learning curve for FDI and not all foreign operations have been successful. One Singapore-based furniture company with foreign operations, the Lee Wah group, has gone bankrupt. While the exact causes are unclear and may even involve fraud, it has been alleged that the company failed partly because of an over expansion of its European and U.S. retail operations.⁹ As another example, by 1981, of the 44 projects from Singapore companies approved by the Sri Lankan Government, only half or 22 projects were in operation. The others had either failed or were never started (*Singapore Business*, February 1983, p. 59).

Conclusions

This study forms the first systematic examination of the foreign investments of listed Singapore industrial firms. A limitation of this study is that it did not examine the foreign operations of listed non-industrial firms or those of unlisted

firms. It has also not examined whether there are differences in the nature of foreign investments by government-owned and private firms based in Singapore. Future research could be directed to overcome these limitations.

While not as extensive as those by Hong Kong firms, foreign investments by Singapore industrial firms are fairly common and extensive. Malaysia seems to be the most popular site for such investments, but more than three out of every five listed Singapore industrial firms have also invested in other foreign countries. Foreign direct investments seem to serve a number of goals for these companies including the need to exploit their firm-specific advantages especially in the neighbouring countries, and to seek reliable and less expensive sources of labour, raw materials and technology. Singapore companies have made an excellent and impressive start in an activity that is becoming more important as Singapore continues to grow as the business centre for this region of the world.

Thus, while only a few Singapore industrial firms can be considered to be true multinationals, a significant proportion have extensive investments in operating affiliates in many foreign countries. These few Singapore MNCs seem to have some striking similarities to older MNCs. However, they also seem to have some very significant characteristics that may give them a comparative advantage over the traditional MNCs from industrialized countries. As an example, preliminary research seems to indicate that Singapore MNCs operate with lower overheads compared to Western MNCs and can better exploit smaller foreign markets. Such advantages could mean that the Singapore MNCs may be able to operate more successfully in the high growth areas of the Third World than can the traditional MNCs.

The challenges for international business posed by the emergence of these new MNCs from Singapore and other NICs include the challenge of continued efforts to understand the nature of these new MNCs and their competitive advantages. For example, the developed countries face the challenge of developing viable and effective corporate strategies and public policies to accommodate this new but rapidly growing phenomenon.

NOTES AND REFERENCES

* While this research was conducted as part of my Fulbright Research Fellowship, the views expressed here are mine alone. This paper reports only the initial findings of the research project and, therefore, the results and conclusions presented here are only tentative and may be modified as the research project progresses. This paper has benefited from the comments by Mr. Allan Pathmarajan and Mr. Robert Booker on an earlier draft. Any remaining errors are, however, solely my responsibility.

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Taiwan and Southeast Asia: *Realpolitik Par Excellence?**

LEE LAI TO

From Taiwan's point of view, the countries of the Association of Southeast Asian Nations (ASEAN), or for that matter, Southeast Asia, may not loom large in its foreign relations when compared with the United States, Japan and Europe. But Taiwan is actually very close to Southeast Asia physically. The vast resources in the region should also provide ample opportunities for economic interactions. Moreover, the desire of the Taipei government to solicit moral and financial support from the so-called overseas Chinese should naturally put Southeast Asia as a priority area in view of the presence of an estimated fourteen million ethnic Chinese in the region. Ideologically, Taipei should also find it more desirable and comfortable to deal with the non-communist Southeast Asian states. However, the changed international and regional situation in the 1970s did not allow Taipei to reinforce its ties with the region, at least openly.

Taiwan's Difficulties in Southeast Asia in the 1970s

Taiwan's difficulties in the region started, just like its relations with other parts of the world, with its departure from the United Nations in 1971 and, more importantly, the Sino-American *détente* sparked off by President Richard Nixon's visit to China in 1972. These two events heralded the isolation of Taipei diplomatically. As far as Southeast Asia was concerned, there were added reasons for some of the ASEAN states to distance themselves from Taipei and be more accommodating to Beijing. Notably, Britain, the former colonizer of parts of Southeast Asia, announced that it would withdraw its forces east of the Suez by 1975. The economic and security problems created for Singapore reached crisis proportions when the British Government decided to speed up and complete its withdrawal by 1971. This impending departure of British troops prompted many ASEAN leaders to hope for a continued American presence in the region for strategic and economic reasons. This was, however, later on shattered by the announcement of the Nixon Doctrine which produced world-wide repercussions.

While Nixon pledged to keep American treaty commitments in Asia, he made it clear that "as for the problems of military defence, except for the threat of a major power involving nuclear weapons, that this problem would be increasingly handled by, and the responsibility for it taken by, the Asian nations themselves".¹ A further shock for the ASEAN states was the announcement of the intended Nixon visit to China in July 1971 which paved the way for the Sino-American *détente*.

On the whole, these events greatly discounted the confidence of the ASEAN states in the Western powers. They began to realize that they had to adjust to the changed international environment. This was especially true in view of the fact that other big powers might want to compete to fill the anticipated "power vacuum" left behind by the West. Already the Russians had proposed to have an Asian Collective Security System since 1969. They had also begun to intrude into Southeast Asia especially the waters around the region starting from the late 1960s in an apparent desire to minimize the influence of the People's Republic of China (PRC) and the USA. Japan, in its desire to promote its own economic development and prosperity, also looked upon Southeast Asia as a place to obtain raw materials and provide markets for its products. The American withdrawal from Vietnam and its reduced role in Southeast Asia would also pave the way for more economic activities for Japan — the major ally of the United States in Asia. But the most disturbing fact of all, at least from the point of view of Taipei and some of the ASEAN states, was the re-emergence of Beijing as an important actor in international affairs. Coming out of its self-imposed isolation in international affairs after the Cultural Revolution, China was seen playing the "American card" against the Soviet Union.

As far as Southeast Asia was concerned, China's desire to move closer to the United States was also accompanied by Beijing's more pragmatic and conciliatory approach to the countries which were considered close to the West. Thus, Beijing was seen to be toning down its support to the so-called wars of liberation in the region. It also decreased its attacks on Southeast Asian leaders. Finally, Beijing also began to support the regional interests of ASEAN including the neutralization of Southeast Asia.

The neutralization of Southeast Asia was actually proposed by Malaysia in 1970, and later on endorsed by the ASEAN Foreign Ministers' Meeting in November 1971 to prevent the region from being dominated by the big powers as a result of the changed regional and international developments starting from the early seventies.² It was the hope of Malaysia and, later on, the ASEAN states that Southeast Asia would become a Zone of Peace, Freedom and Neutrality (ZOPFAN), free from any form or manner of interference by outside powers. While some of the ASEAN states may have reservations on whether ZOPFAN could be achieved and used to meet the challenges posed by the changed international situation in Southeast Asia, most agreed that there was a need for a policy of equidistance towards the contending powers in the region. As far as China was concerned, the odd situation was that none of the ASEAN states had diplomatic ties with it from 1967 to 1974. This awkward situation was only redressed when Malaysia took the lead in establishing official ties with Beijing in May 1974. This was followed by the Philippines and Thailand in June and July 1975 respectively, after the fall of Indochina to the communists. While it is beyond the scope of this paper to analyse the domestic reasons of the individual ASEAN states for establishing diplomatic ties with Beijing, suffice it to say that they all felt that a more

accommodating policy towards Beijing would reap political and economic benefits in view of the new developments in international affairs. The fall of Indochina to the communists in 1975 further signified to the ASEAN states that they had to deal not only with the communist states of Indochina in their future foreign relations, but also with China, the major communist power which had provided inspiration, moral and material support to the communist movements in Vietnam, Cambodia and Laos when they were struggling for power. The geographical proximity of these communist states to the ASEAN region no doubt had made it clear to some of the ASEAN states that they had to adjust to the realities of international politics, amongst which was the fact that China was a major force in the region and that normalization of relations with it would be useful to balance the influence of the major powers in the area.

The establishment of diplomatic ties between Kuala Lumpur and Beijing no doubt was a severe blow to Taipei. As expected, Malaysia cut off its diplomatic ties with Taiwan after May 1974. And in the Sino-Malaysian communiqué, Malaysia stated that it recognized the government of the PRC as the sole legal government of China and acknowledged the position of the Chinese government that Taiwan was an inalienable part of the territory of the PRC. Taiwan's diplomatic setback in Malaysia signalled that Taipei's diplomatic activities in the ASEAN region would be gradually phased out. To Taipei, its difficulties in Southeast Asia were to a large extent the result of ambivalent American support given to the smaller Southeast Asian countries. To some in Taipei, Southeast Asia would henceforth be a very explosive area, even more explosive than the Middle East as all the major powers were involved in the former but not the latter.³ Moreover, Taipei did not see how Southeast Asia could be neutralized and it considered neutralization an illusion which could not be realized especially if it was used to replace the region's relations with the USA and Taiwan.⁴ According to some observers in Taipei, the Southeast Asian states which had established official ties with the PRC would suffer, just like Burma and Indonesia did.⁵

With the communist victory in Indochina in 1975, it not only forced Taipei to withdraw its missions from the area, but also added its anxiety about the onslaught of the communists in Southeast Asia. To some in Taipei, the fall of Indochina was the second most important fall to the communists in Asia. They again blamed the United States for its lack of support to its allies.⁶ When the Philippines and Thailand finally severed their ties with Taipei later in 1975, Taiwan had to face the inevitable. The only consolation for Taipei was that Indonesia, which had severed its official ties with the PRC since 1967, still did not want to resume such ties with Beijing while Singapore announced that it would be the last ASEAN state to have an embassy in China. However, as elaborated later, while these two states wanted to have ties, primarily of an economic nature, with Taipei, they did not want to enter into diplomatic relations with Taiwan and had reservations in getting too close to the Nationalist government.

Practical Relations between Taipei and the ASEAN Countries

As Taipei became more and more isolated in the diplomatic circle, it began to adopt a more flexible approach in its conduct of international relations. It was apparent that more and more nations were dropping Taipei in favour of Beijing diplomatically. And since it could not change the tide, it began to promote what is called "substantive" relations with countries which did not have diplomatic ties with it. With regard to Southeast Asia, Taipei tried to salvage its diplomatic setbacks in the region by maintaining semi-official or unofficial relations with the area. In return, the ASEAN states also seemed to have an interest in maintaining such relations with Taipei. Thus, in the case of Malaysia, while Taiwan established what it called the Far East Trade and Tourist Centre in Kuala Lumpur in 1975, Malaysia established the Malaysian Airline System office in Taipei in 1977 to conduct matters of mutual concern between the two countries.

Likewise, the Philippines, having severed its diplomatic relations with Taipei in 1975, set up the Asian Exchange Centre in Taiwan which in turn established the Pacific Economic and Cultural Centre office in Manila to administer trade, cultural and other relations between the two countries. In the case of Thailand, Taiwan reached an agreement with Bangkok in 1975 that the Thai Airways International office in Taipei and the China Airlines office in Bangkok would be authorized to conduct affairs such as providing travelling documents and promoting trade and tourism. Relations between the two countries were further strengthened in 1980 when Taipei set up the Far East Trade Office in Bangkok, and a separate Thai agency known as the Taipei Administration Office, Thai Airways International, was instituted in Taipei.⁷ All of these were empowered to perform most consular functions including the handling of visas.

More importantly, it should be noted that Taipei also has "practical and substantial" relations with Singapore and Indonesia. In the case of Singapore, Taipei established a trade mission in the Republic on 6 March 1969. In turn, Singapore set up its Trade Representative Office in Taipei in 1981. Both offices have semi-official status and enjoy diplomatic-like privileges and immunities. More importantly, high ranking officials from the two countries are known to have visited each other.⁸ Singapore's troops are also known to have been trained in Taiwan.⁹ In spite of these, Singapore's relations with Taipei does not appear to have compromised the former's consistently-held stand that the PRC is the sole legal representative of China and that Taiwan is part of China. In addition, high ranking officials from the PRC and Singapore have visited each other.¹⁰

In the case of Indonesia, Taipei has been quite successful in wooing Jakarta after the suspension of diplomatic ties with the PRC by Indonesia in 1967. Seemingly, Indonesia had become an important target of Taiwan's diplomacy in Southeast Asia after 1967. In fact, with the increase in trade and technical co-operation between Taipei and Jakarta, the two countries eventually set up its Chamber of Commerce office in each other's capital in 1971. The office, as expected, has been empowered to receive visa applications, thus enjoying semi-

official status. There have also been exchanges of visits of civil and government leaders between the two places. These included a visit to Jakarta by Taiwan's Premier Sun Yun-suan in 1981, provoking the PRC to attack Indonesia for trying to create "two Chinas".¹¹ While Taipei might be able to reap some diplomatic windfall out of Jakarta's ambivalence in resuming diplomatic ties with the PRC, it should be noted that Jakarta still maintains that it has a one-China policy and that it is a matter of time for it to normalize relations with Beijing. Moreover, it seems recently that Jakarta is also interested in having more trade with the PRC. In fact, discussions were conducted between trade representatives from both sides and a memorandum of understanding between Jakarta and Beijing to resume direct trade was signed in July 1985 in Singapore.¹²

On the whole, we can see that Taiwan still maintains semi-official or unofficial representation in all the ASEAN states after its diplomatic setbacks in the seventies. Even in the case of Brunei which joined ASEAN in 1984, Taipei was able to have a Far East Trade and Cultural Centre to take care of its relations with Brunei before the latter received its independence from the British. More significantly, when we look at the trade figures between Taiwan and the ASEAN countries, it can be detected that the volume of trade between the two areas has been quite steady and consistent despite Taipei's diplomatic problems in the ASEAN region. As demonstrated by Table 1, an average of 7.4 per cent of Taiwan's total trade came from the ASEAN region from 1970 to 1982. With the exception of 1974, Taiwan maintained a small surplus in its trade with the ASEAN countries for the same period.¹³ Much of this trade depends on the long-standing contacts between the Chinese in Southeast Asia and their Taiwan counterparts. As such, despite the diplomatic problems for Taipei in the 1970s, the impact on trade was not significant. In fact, as Taiwan shifts its economy away from industries that are most vulnerable to competition from countries with low wage rates, it is expected that most of the ASEAN states are likely to be markets for Taiwan's machinery, sophisticated electronics and the supply of technical know-how.

TABLE 1
PERCENTAGES OF TAIWAN'S TOTAL TRADE WHICH CAME FROM THE
ASEAN COUNTRIES

1970			
1971	7.68%	1977	7.98%
1972	7.00%	1978	7.38%
1973	7.57%	1979	7.70%
1974	8.16%	1980	7.47%
1975	7.74%	1981	6.93%
1976	7.90%	1982	6.56%
	7.06%		

SOURCE: Derived from the Appendix.

Besides trade, there is a steady flow of investments in both directions — but mainly into Taiwan from the Chinese in the ASEAN region. Although it is difficult

to obtain precise figures on investments from the Chinese in the ASEAN countries in Taiwan, figures on approved investment by the so-called overseas Chinese are available. These data contain a breakdown of the origins of the investments into three categories — Hong Kong, Japan, and others. The “others” category, as can be seen from Table 2, is quite substantial and can be contributed at least partially by the Chinese in the ASEAN region.

TABLE 2
APPROVED OVERSEAS CHINESE INVESTMENT BY AREA
(Amount Unit: US\$1,000)

Year	Total	Hong Kong	Japan	Others
1970	29,731	8,341	1,242	20,148
1971	37,808	21,261	541	16,006
1972	26,466	12,478	1,516	12,472
1973	55,166	30,014	4,354	20,798
1974	80,640	21,743	2,987	55,910
1975	47,235	29,532	2,969	14,734
1976	39,487	17,326	1,632	20,529
1977	68,723	11,326	6,137	51,260
1978	76,210	16,501	4,533	55,176
1979	147,352	12,871	5,006	129,475
1980	222,584	17,949	3,061	201,574
1981	39,463	22,622	1,415	15,426
1982	59,720	14,102	203	45,415

SOURCE: *Taiwan Statistical Data Book 1983* (Taipei: Council for Economic Planning and Development, Executive Yuan, Republic of China, 1983), p. 237.

Finally, Taiwan has been able to build up some goodwill by giving development assistance to selected ASEAN states. Notably, Indonesia has been receiving technical missions from Taipei since 1976. Even in the case of the Philippines and Thailand, assistance from Taiwan's technical missions were resumed by the early 1980s, as shown in Table 3. Most of the missions and the technical co-operation extended to the ASEAN states were related to agricultural development. Such assistance was apparently considered useful. Even in the case of Brunei, it is known that agricultural experts from Taipei were sent there for fact-finding and negotiations on technological co-operation.¹⁴

Taiwan's Problems in Approaching the ASEAN States

While Taiwan may circumvent its diplomatic isolation in Southeast Asia by having “practical and substantive” relations with the ASEAN states, there is definitely a limit on how far it can maintain its contacts with the area. Firstly, all the ASEAN states have basically a one-China policy, although they have reservations in getting too close to the PRC. Thus, even in the case of Indonesia, which has great reserva-

TABLE 3
TECHNICAL MISSIONS SENT OUT BY TAIWAN TO SOME OF THE
ASEAN STATES
(Persons)

Year	Philippines	Thailand	Indonesia
1970	-	18	-
1971	-	16	-
1972	2	19	-
1973	2	18	-
1974	2	9	-
1975	-	-	-
1976	-	-	10
1977	-	-	9
1978	-	-	7
1979	-	-	14
1980	-	-	20
1981	2	3	22
1982	-	4	22

SOURCE: *Statistical Yearbook of the Republic of China 1983* (Director-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, 1983), p. 171.

tions in resuming diplomatic ties with the PRC, it has not contemplated having official ties with Taipei. Likewise, in the case of Singapore, although it maintains that it will be the last ASEAN state to have diplomatic relations with the PRC, it voted for the Albanian Resolution in the United Nations in 1971 and it will not upgrade its Trade Representative Office in Taipei into an embassy.¹⁵ In fact, for all the ASEAN states, while they recognize that some contacts with Taipei are useful, they prefer to conduct such undertakings without much publicity for fear that such contacts, especially between governmental officials, would be looked upon as pursuing a two-China policy. All the ASEAN states realize that the PRC, like it or not, is a major power in the region and that due caution has to be paid to guard against political backlash from Beijing in their dealings with Taipei. As such, Taipei's activities in non-communist Southeast Asia will have to be low-key and it cannot expect to be active in the international politics of the area.

Secondly, Taiwan's uncompromising anti-communist stand in its foreign policy will not receive a responsive chord in the ASEAN region. To be sure, all the ASEAN states are concerned with the domestic problems created by the local communist insurgents. They are also aware of the fact that Beijing backs the region's communists. Even with the emphasis on what it calls state-to-state relations with the ASEAN states, Beijing still maintains that it will give at least political or moral support to the communists in the ASEAN region based on what it calls party-to-party relations. From all indications, it seems that Beijing will not give up its support entirely, at least in terms of moral or political support, to communist

insurgents in Southeast Asia.¹⁶ This stems partly from China's desire to help fraternal parties and perhaps more importantly, the difficulties inherent in forsaking old friends and allies. Despite the cutting off of material aid to local communist insurgencies the suspicion still remains that the PRC wants to retain the option of manipulating their ties with local insurgents so as to gain more diplomatic leverage against non-communist Southeast Asia should its relations with the area deteriorate. Beijing's leaders have also reasoned that their continued support will forestall the Russians and Vietnamese from expanding their influence on these insurgents. Such arguments, however, are not acceptable to all the ASEAN states. To them, any external support, be it Chinese, Russian or Vietnamese, to the communist insurgents is considered interference in their domestic affairs and a threat to their national security. As a result, Beijing's persistent refusal to renounce its support to the communists in the region continues to be a running sore in the relations between the PRC and non-communist Southeast Asia.

Nevertheless, while all the ASEAN states want to clamp down on communist activities domestically, they realize that they should have a dialogue with the communist states in their foreign relations. Notably, the situation in Indochina has shown that no solution to the problems in Cambodia can be attained without the acquiescence of Beijing, Moscow, and Hanoi. As such, the ASEAN states find it difficult to accept and take great care not to be drawn into supporting Taiwan's overall goal of anti-communism in its diplomacy.

A third problem is Taiwan's relations with the Chinese in Southeast Asia. Since Sun Yat-sen's time, the Kuomintang (KMT) government has maintained a keen interest in the overseas Chinese. This stems largely from the financial, and to a certain extent, moral and personnel support given to China by the overseas Chinese. The continuous interest in getting their support, in fact, was expressed, among other things, by the continuation of the Manchu nationality law of *jus sanguinis* in 1929 and the establishment of the Overseas Chinese Bureau in Canton in 1926 by the KMT government. The latter became the Overseas Chinese Affairs Commission (OCAC) which has been operated under direct supervision of the Executive Yuan (Cabinet) since 1932.¹⁷

The rift between the Chinese Communist Party (CCP) and the KMT and the latter's subsequent flight to Taiwan gave another dimension to the value of the overseas Chinese. They provided the KMT government with a means of legitimizing itself. If the KMT could command the support and acknowledgement of the overseas Chinese as the legitimate Chinese government, it would greatly boost its international prestige as well as its claim to be the legitimate government of China. Apparently, the KMT government deliberately uses a broad definition of the term "overseas Chinese" so as to broaden its hoped-for base of support. Thus, according to an official source, overseas Chinese are "the Chinese abroad, the naturalized citizens of Chinese descents and the descendants of Chinese parents".¹⁸ The explanation given was that the Chinese residing abroad are like "the body of a family leaving home to making a living. As to the naturalized citizens of Chinese

descents, they are married daughters of a family bearing the surnames of their husbands and live with their husbands' families while the descendants of Chinese parents are the children of married daughters".¹⁹ Moreover, the Taipei government has not followed the PRC's practice in declaring that Chinese living abroad must choose between Chinese nationality and that of their country of residence. Unlike the PRC, Taipei recognizes, quietly, dual nationality but does not insist on overt evidence of allegiance to itself. With an estimated fourteen million ethnic Chinese in Southeast Asia, forming the majority of the "overseas" Chinese population in the world, it is only natural that Taipei is keen to extract whatever support it can from them.

On its part, Taipei has tried hard to entice these Chinese to their "motherland". These include a whole range of investment incentives for overseas Chinese businessmen, inviting overseas Chinese to Taipei to celebrate the National Day of the KMT government, and organizing seminars, tours and other similar functions in Taiwan for the "overseas" Chinese. More importantly, perhaps, the OCAC, in co-operation with the Ministry of Education, has provided various services to "overseas" Chinese students who want to study in Taiwan. The OCAC is also known to have supplied textbooks, newspapers, magazines and other publications to Chinese schools and other organizations in Southeast Asia.²⁰

Just like the PRC's residual relations with the so-called overseas Chinese in Southeast Asia, Taiwan's wooing of these Chinese no doubt has produced misgivings from the ASEAN states. At a time when all of them are trying to build up a separate identity and assimilate the Chinese into the local political system, it is only natural that they are troubled by Taipei's efforts to solicit support from the Chinese in Southeast Asia. It is true that the KMT government has officially toned down its more nationalistic policy towards the Chinese in the region. It may also call upon the Chinese Southeast Asian nationals to give their political allegiance to their countries of residence. Yet, this appeal is not backed by the repudiation of dual nationality. To complicate the issue, Taipei has always encouraged the "overseas" Chinese to retain their cultural heritage. In fact, it seems that Taipei, knowing very well that Taiwan was not a significant source of Chinese emigration and home to many of the "overseas" Chinese, has deliberately tried to project itself as the main repository of Chinese culture. As "protector" of Chinese culture, Taiwan perhaps hopes that this may appeal to those Chinese who shun communism and abhor the attacks against traditional Chinese culture in the mainland.

However, the heavy emphasis on Chinese culture may not be looked upon favourably by some quarters in the ASEAN states. This is especially true when the country concerned has a multi-racial and multi-lingual society. Too much emphasis on Chinese culture for the ethnic Chinese may be considered to be one of the reasons why it is difficult to assimilate them into the national polity. In addition, it may produce cultural chauvinists who are not sensitive to the needs and aspirations of other races, thus disrupting the racial harmony which is absolutely necessary for the preservation of peace and stability in the ASEAN region.

Concluding Remarks

In view of the above problems, it will be more productive for Taipei to take a low profile in approaching the ASEAN states. It can probably continue to exploit the ambivalence or even hostility of some of the ASEAN states towards the PRC for its own benefits. Notably, in the case of Indonesia, the dichotomy in the Indonesian foreign policy apparatus and the unresolved debate on restoring diplomatic ties with Beijing has given Taiwan some leeway to advance its interests in Jakarta. The presence of a rather influential Taiwan lobby in Jakarta, the opposition from the military and the nationalists to normalize relations with China will continue to restrain the Indonesian Government from being too hasty in resuming diplomatic ties with Beijing.²¹

While Taiwan wants to broaden its ties with the ASEAN states, such relations will have to be confined mainly to those of an economic and practical nature because of the extra caution exercised by the ASEAN states for fear that such ties may be misconstrued as pursuing a two-China policy. To be sure, Taiwan will have growing economic ties with the ASEAN region. Despite the preoccupation with major markets in the United States, Japan and Europe, Taiwan and the ASEAN states realize that there is room for economic co-operation. This is especially true when Taiwan and all the ASEAN states, with the exception of the Philippines, have had respectable economic growth rates. Greater industrialization in the ASEAN states may heighten their competition with Taiwan's products to a certain extent. However, if Taiwan could lift itself up to a higher plane of development, the opportunities for further economic co-operation should multiply enormously. Because of its small size and history of being a good neighbour, Taiwan, moreover, does not arouse fears of economic domination in other countries and may therefore be welcome as an economic partner. It must be added that Taiwan's military presence in the Spratleys to maintain its claims on the islands in the South China Sea no doubt may arouse suspicions and displeasure from the ASEAN states, especially Brunei, the Philippines, Malaysia and Indonesia. However, it is quite obvious that besides trying to preserve what it calls the territorial integrity of China, Taipei's other objective is to prevent Beijing from claiming to be the sole champion of China's interests in the South China Sea. In a way, Taiwan's military presence in the Spratleys has made it more difficult and complicated for the PRC to project its claims to all the islands in the area.

While Taiwan is definitely aware of the political and economic significance of the islands in the South China Sea, it seems that it is not inclined to use force against the ASEAN states involved. To the ASEAN states, Taiwan is not a military threat, at least when compared with the PRC, and Taiwan may be more considerate to their claims to the islands in the area.

APPENDIX
TAIWAN'S TRADE WITH THE ASEAN STATES
(In thousands of N.T. dollars)

Year/Country	Indonesia	Malaysia	Philippines	Singapore	Thailand
1970 Export	1 302 465 (2.20)	479 972 (0.81)	650 035 (1.10)	1 437 188 (2.43)	1 007 413 (1.70)
Import	475 155 (0.78)	1 181 029 (1.93)	828 429 (1.36)	213 017 (0.35)	1 641 496 (2.69)
1971 Export	1 761 953 (2.14)	581 963 (0.71)	850 262 (1.03)	1 840 533 (2.23)	1 239 978 (1.50)
Import	828 242 (1.12)	1 263 570 (1.71)	1 253 312 (1.70)	301 685 (0.41)	1 067 170 (1.44)
1972 Export	3 126 280 (2.62)	613 302 (0.51)	718 562 (0.60)	2 927 732 (2.45)	1 829 426 (1.53)
Import	1 832 130 (1.82)	1 748 674 (1.73)	1 469 282 (1.46)	762 040 (0.76)	1 674 684 (1.66)
1973 Export	4 504 701 (2.64)	1 177 711 (0.69)	1 101 746 (0.65)	4 936 366 (2.89)	2 426 656 (1.42)
Import	3 873 715 (2.69)	2 374 293 (1.65)	2 112 233 (1.47)	1 016 681 (0.71)	2 177 901 (1.51)
1974 Export	4 830 759 (2.26)	2 210 162 (1.03)	1 752 896 (0.82)	5 123 145 (2.40)	2 612 494 (1.22)
Import	6 922 114 (2.61)	3 121 359 (1.18)	1 762 066 (0.66)	2 016 751 (0.76)	6 735 171 (2.54)
1975 Export	6 746 253 (3.35)	1 654 903 (0.82)	3 115 108 (1.55)	5 339 638 (2.65)	2 574 381 (1.28)
Import	6 379 646 (2.82)	2 218 485 (0.98)	1 266 917 (0.56)	1 361 158 (0.60)	2 660 962 (1.18)
1976 Export	8 323 144 (2.69)	2 050 360 (0.66)	2 949 186 (0.95)	8 105 597 (2.62)	3 036 833 (0.98)
Import	7 661 177 (2.67)	3 996 581 (1.39)	1 209 488 (0.42)	1 456 347 (0.51)	3 512 413 (1.22)
1977 Export	8 894 411 (2.50)	2 756 063 (0.78)	3 606 077 (1.02)	8 834 455 (2.49)	3 804 088 (1.07)
Import	11 993 630 (3.70)	5 563 770 (1.72)	1 421 742 (0.44)	3 466 131 (1.07)	3 729 977 (1.16)
1978 Export	11 286 506 (2.41)	3 216 274 (0.69)	5 976 674 (1.28)	10 905 553 (2.33)	6 202 733 (1.32)
Import	11 864 155 (2.91)	8 366 886 (2.05)	1 892 378 (0.46)	3 051 049 (0.75)	2 277 567 (0.56)
1979 Export	14 347 924 (2.48)	4 686 827 (0.81)	7 227 123 (1.25)	15 195 289 (2.62)	6 678 407 (1.15)
Import	16 312 363 (3.06)	11 867 151 (2.23)	2 649 468 (0.50)	4 484 281 (0.84)	2 434 393 (0.46)
1980 Export	17 191 886 (2.41)	6 109 005 (0.86)	7 010 011 (0.98)	19 598 730 (2.75)	6 337 885 (0.89)
Import	19 454 535 (2.73)	15 315 777 (2.15)	4 227 303 (0.59)	7 994 254 (1.12)	3 241 662 (0.46)
1981 Export	15 556 856 (1.87)	6 872 983 (0.83)	10 283 380 (1.24)	22 154 118 (2.67)	7 170 615 (0.86)
Import	17 127 937 (2.20)	16 619 011 (2.13)	4 436 180 (0.57)	7 289 214 (0.94)	4 297 123 (0.55)
1982 Export	16 484 062 (1.91)	8 655 934 (1.00)	9 142 412 (1.06)	22 439 513 (2.60)	8 421 470 (0.97)
Import	10 111 484 (1.37)	18 349 875 (2.49)	2 682 522 (0.36)	5 919 082 (0.80)	4 131 224 (0.56)

NOTE: Figures shown in brackets are percentages of the total export or import of Taiwan for the year.

SOURCE: Extracted from *Statistical Yearbook of The Republic of China, 1983* (Directorate-General of Budget, Accounting and Statistics, Executive Yuan, Republic of China, 1983), pp. 179-81, 183-85.

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Real Defence Resources in Southeast Asia: The Social Defence Model

THEODORE OLSON

Abstract

Primary attention is given in this paper to the means of defence in the region instead of to substantive political questions. Defence resources are described as people, defensive terrain and cohesive cultures rather than as commodities and hard currency destined to purchase imported hardware. Objects of defence are heritage and culture: again, people. Social defence — that is, direct defence of these objects by the people themselves — is outlined and contrasted to a defence of territory that cannot succeed against the major external powers. Treated as a classical strategy in the Sun Tzu-Clausewitz tradition, social defence is analysed with respect to the present roles of armed forces and military leaders in the region. Finally, the utility of social defence is discussed with reference to the region's need for ZOPFAN (Zone of Peace, Freedom and Neutrality) and for settlement, independent of great-power guarantees, of ASEAN's relation to the Indochinese states.

Serious debate about strategic issues in Southeast Asia has tended to focus on substantive *issues* rather than on *means* of defence: boundary problems left over from the era of colonialism; ethnic and religious tensions; the impact of great powers external to the region; the need to establish an appropriate degree of independence from these powers while retaining access to military supplies regarded as necessary; the problem of finding the correct relation to China — immemorably the dominant nation — and to Japan, forced by economic reality to carve out an area of economic dominance, but a nation unsure about the extent to which this ascendancy must be ensured by military power. Latterly, the Kampuchean problem, about which more will be said later, has vexed the area.

The countries of the Association of Southeast Asian Nations (ASEAN), no doubt wisely, have kept military co-operation off their public negotiating table, although there are bilateral arrangements such as those between Singapore and Brunei. Some of the member countries are committed to alliance or quasi-alliance relations with external groups or nations; and the grouping is hedged with externally-oriented alliance structures, such as ANZUS, Singapore's complex security guarantees, the somewhat awkward intersection of Thailand's historic

defence requirements and American security perceptions; the tangled relations of China and the Soviet Union as these have come to bear in Kampuchea and Laos; and the ill-fitting arrangements made by the Americans around the northern end of ASEAN.

It would be well, however, to consider the means of defence along with these absorbing substantive issues. Apart from China and India, and perhaps Pakistan, no regional state has sought nuclear weapons. Nevertheless, the next tier of complex and expensive Western defence technology has (sometimes eagerly, sometimes reluctantly, but always automatically) been purchased as part of the effort to bolster national defence. Given the complexity of defence tasks in the region, these purchases have often been employed with indifferent success. Unless the Thais face major conventional conflict with Vietnam, the F-16s, while representing "state of the art" acquisitions, are unlikely to be employed usefully in the low intensity defence tasks facing the Thais. And this equipment will contribute very little indeed to a much-needed Thai capability to patrol its portion of the Gulf of Siam, the Andaman Sea and the Straits of Malacca. The Philippines is similarly placed. Though its position enables it to dispense with major mobile land armaments, the money saved has not gone into what is required by that nation's geographical position: adequate air-sea surveillance craft. One can speculate that the presence of the very large American naval force at Subic Bay dooms Filipinos to believe that their own naval activity would be insignificant by comparison and thus ineffective in fact. These are but two examples of the skewing effects of armaments intended for circumstances very different from those in view in Southeast Asia. The argument here is not that these nations can revert to World War II small arms; the most modern radar surveillance, navigational aids and even satellite capabilities are all useful to Southeast Asian nations individually and collectively. The enquiry seeks a more fundamental level of analysis.

Part I deals with the enduring bases for an effective defence for Southeast Asian nations, individually or, it may be, collectively. In these resources for defence the Southeast Asian nations are not "disadvantaged", poor, under-developed or in urgent need of the sort of "modernization" that means continuing dependency. We also put a question rarely asked with any precision: Just what is it that we wish to defend? Answers suggested there lead to Part II, which examines *social defence*, firstly as a means of defence directly related to our fundamental objects of defence and, secondly as a defence that capitalizes on those defence resources in which Southeast Asia is rich. Part III takes up what can be, but need not be, obstacles to social defence: the roles of existing armed forces. Readers unpersuaded of the direct applicability of social defence to their own nations may yet prize it for its assistance in directing us to fundamental defence issues. In Part IV, one of these is addressed: how to achieve ZOPFAN, the zone of peace, freedom and neutrality, for Southeast Asia? Beset by contradictions under present conditions, the road to ZOPFAN can be illuminated by a consideration of social defence.

I

What is being argued for here is a hard look at *real defence resources* and at the *objects of defence*. Hard currency is required to pay for any imported military hardware. As an alternative, the weapons are offered on terms that deepen a nation's dependency on some basic commodity as a means of payment. Or, the weapons are supplied at reduced dollar-costs if the recipient will "co-ordinate" its defence further with the security interests of the supplying nation. This last arrangement need not be agreed to; yet sometimes it follows from the penetration thus achieved, and the follow-up of training groups and training exchanges. Or, the diversion of scarce resources to purchase inappropriate weapons handicaps the development of other means of defence. Even when a national munitions industry is established, the effort can strain the willingness of the populace to accept the necessary privations.

What are real defence resources in Southeast Asia? Though local industrial bases and co-operative regional ones are growing and will become important features in the world as well as at home, the real defence resources of these nations are people, defensive terrain and reasonably intact cultures. Defence requires real wealth: goods and people. And people, if they are sufficiently numerous, can to some degree substitute for goods. Southeast Asian nations are well endowed with defensive terrain: mountains, water-soaked lowlands and good cover from tactical air strikes. Finally, although urbanization is a growing problem, the populace is both usefully dispersed and able to use traditional means of social mobilization and communication — that is, these societies cannot be decapitated in the way envisioned in East-West nuclear-war fighting scenarios.

The West has impacted most heavily and perhaps most destructively on Southeast Asian cultures not in those places where outsiders invaded but where national and local political leaders acquiesced in peace-time penetration, whether in a security crisis or in the name of development and modernization — that is, invasion has often proved to consolidate local cultures, not destroy them.¹ Numbers of people, difficult terrain and cultures that can be "obstacles to modernization" are defence assets, not the liabilities they seem when populations grow restive at the diversion of national capital into glamorous, Western-style weapon systems.²

What are the objects of defence? When off-the-shelf technology is being marketed and bought, this question is rarely even asked. But what is it that we wish to defend? This ought to be the guiding question in any defence analysis. If Asians seldom ask it in any but an *ad hoc* way, the West too can hardly raise it because nuclear weapons, with all their strategic unwieldiness, tend to preclude connecting ends and means. However, enquiring about the objects of defence is the key to establishing or re-establishing a sensible and effective relation between resources (or means) and the reasons for having a defence in the first place.

If we disregard purely artificial states such as some in Africa, we may say that a nation is a nation — a defence-worthy entity — because it has a shared

history or culture, something we can call *heritage*. This heritage is the identity of a people together. It need not reach back into the dim past, as is the case with Thai or Khmer cultures. Heritage transcending merely local groups can be created relatively quickly out of colonial experiences, as in Indonesia and the Philippines. It need not be richly nuanced; the shared experience of Singaporeans is one-dimensional indeed beside that of the Javanese. Yet, it may well deepen; every group begins at some particular time. One may have centre-periphery problems, as does every nation with a dominant centre or heartland and associated smaller cultures. All nations in Southeast Asia are troubled by borders influenced or bequeathed by Western colonizers or by outgrowths of Marxism. Nevertheless, the extent to which heritage is determinative within such borders informs decision-makers of the effective boundary of their objects of defence. We want to defend our way of life and what binds us together as a people.

The major consequence of this analysis is that, for Southeast Asian nations, people are both a powerful means of defence and the object of defence.

II

Some Western notions of defence may have been taken over inadvertently. Others may have been accepted quite deliberately. It is not for non-Asians or foreigners of any sort to pretend, in this latter case, to a wiser judgement — beyond pointing out the costs and noting the other choices that have been foregone. The former case, that of inadvertent acceptance of Western defence models, is more problematic. In nations inheriting a Western-style army, such as Malaysia and the Philippines, the Western military doctrine and perspective come with the officers and the training that the independent nation has inherited. These things are bound in with more useful characteristics, such as a high degree of professionalism and the habit of subordination to competent political direction. One Western-originated defence doctrine, however, is unlikely to be taken over by inheritance or inadvertence. And it has little to do with the expensive, high-technology weapon system that inevitably commit the recipient nation to dominant Western notions of effective defence.

Johan Galtung in 1964³ distinguished between *territorial* defence and *social* defence. Territorial defence has become our norm even though it can easily, if paradoxically, result in the destruction or laying waste of the territory so defended. In case of invasion one fights on one's home territory as one would elsewhere. Trees, water-courses, fields, cities, precious buildings — all may be destroyed in order to save the land that underlies them. Desertification, laterization or the return of the jungle and a populace too enfeebled to clear it away — these may well result even from low-technology warfare, to say nothing of the possibilities inherent in today's devices and practices. And to the degree that Southeast Asian societies now depend on international trade, a post-war regime — even a victorious one in a ravaged land — faces stern choices. Do we concentrate on rebuilding social and material infrastructure or do we devote major efforts to those activities that gain us hard currency to buy what we believe we need? If we attempt the latter

or if we attempt both, we may require a degree of regimented social control that thus far only the Khmer Rouge has aspired to, a social control that in most nations would mock the values it fought to save and enhance.

Galtung pointed to those values and institutions as the very things we need to employ to determine the means of defence. His startling conclusion may be summarized as follows:

If you want to defend your society, your ways, your heritage, make certain that that is what you defend.

We all tell ourselves that, in defending territory, we are defending society. But this too frequently leads to the contradiction of destroying a village or society in order to save it. Galtung's solution to the problem is what he called social defence: defence of the society by the people of that society themselves, collectively. The great experts in maintaining our society in the face of obstacles are the people who do it every day: the populace itself. A heavily-armed invader is met not by troops, tanks, F-16s and the whole panoply of destruction but by a populace trained and determined to go on doing what it already does and to deny the invader what he came for. It is not a weaponless populace; and social defence has little in common with generalized pleas on behalf of "disarmament". A people capable of defending its society and of expelling an invader is not weaponless.

Nuclear weapons have only increased people's conviction that the person with the guns, or with more guns, or with better guns can get what he wants. But is this true? A great deal depends on what an invader wants. If his goal is mere punishment or destruction, social defence is of little use — just as, in the West, if the United States or the Soviet Union were prepared to absorb a fearful, annihilating retaliatory blow, nothing could keep either nation from launching an attack that wipes out the other completely. But such ambitions and capabilities are rare anywhere and are inhibited by many things. In Southeast Asia, as elsewhere, fearful slaughters have not been unknown in history. Yet nations or national leaders today tend, in the absence of total ideological fixation, to have restricted goals that yield profits other than those of blood for its own sake. Thus, the social defender has a lever, either to deny a prospective invader the realistic anticipation of success or to convince him by actions, once the invader has arrived in force, that his costs are too high and the returns too meagre.

To suppose that the invader will then simply go on killing people in increasing numbers until the survivors begin to co-operate is to swallow the old Western conviction that Asians "have no respect for life, as we do".

Contemporary troops, even those of the former Pol Pot regime, tend to require a rational reason to continue to kill people on a large scale. And the people to be killed must plausibly be shown to have done something meriting death. In an unarmed social defence, this is difficult to demonstrate. To the degree that this sort of basic rationality exists in the invader, his superiority in armaments becomes less and less meaningful. The conditions are minimized under which those arms can be

effectively employed. And it is of course no argument against social defence that some fairly large number of people may be killed along the way. The accepted alternatives to social defence regularly result in casualties running into the millions.

Social defence has no necessary connection with Gandhi or with the Western, liberal "philosophy of non-violence". Moral characteristics of defenders and invaders need not enter the calculus. The invader goes home because the results of staying are unsatisfactory or because the defending nation and its allies are cleverly spreading doubt about the invader regime in the invader's home country — not because the invader's troops have become awestruck at the moral heroism of the defending population.

Furthermore, the advocates of "non-violent warfare" tend to abjure the use of violence or armaments in those limited circumstances in which they are plainly effective. If one of the Shan military formations debouches over the Tanen into upper Thailand, it is foolish to let these ruthless freebooters spread over the nation. If Sabah-based pirates, thinly disguised as Moro nationalists, attempt to invade the Sulus, it is far better for the Philippines Navy to be able to deal briskly with them at sea. Social defence is a pragmatic defence doctrine, not a philosophy of life.

Indeed, it is a classic defence doctrine, not an innovation. It is the cumbersome nuclear and high-technology weapon systems and the ill-defined national interests of the greatest nations that bring about departures from classical defence doctrine and that show us the confusion, indecision and wasted resources resulting from such departures.

Clausewitz follows ancient Asian strategists in assigning primacy to clear political calculus before one thinks about the uses of violence. And Clausewitz gives the advantage to the defence, barring some overwhelming superiority in numbers, weapons and political analysis on the side of the offence. Social defence redresses the numbers question and can skilfully nullify an invader's superiority in firepower, through rendering it an inefficient means of getting what he wants. And social defence is likely to be itself superior in political analysis. Not only can it defend in depth, with a longer time frame than the invader can afford; not only has social defence decisively shorter and better lines of communication; it has the ability to decide what is to be defended and, without the distraction of having to fight on the enemy's terms, is able to assign its human and material resources to defend what it chooses as the objects of defence.

If the objects chosen are the ordinary way of the defending populace, it follows that ordinary, unarmed people, by doing what they know best, are able to achieve victories. Every achievement in the face of the enemy's efforts is in fact a victory and will be recognized as such by both sides.⁴

Why must the populace be unarmed? Because, if the enemy's guns are of little use in gaining his ends, defenders' guns are not of much use in protecting or defending what the nation has chosen to defend. They are simply the wrong weapons. Any attempt to conduct armed guerrilla warfare will convert the struggle into something that, while possibly winnable, reduces defender effectiveness and

rejuvenates the invader's troops. Guerrilla warfare necessarily devolves upon the young and fit. And guerrillas may know very little about how to defend a school system or hallowed kinship patterns. We then get two levels of defence activity, concerned with different and possibly conflicting things. Yet, the guerrillas are dependent on the populace and may subject it to enemy reprisals for the guerrillas' own actions.⁵

Is the Asian peasant, tradesman or urban person able to undertake social defence; or is there some cultural impediment that must be faced? We need not look for any special trait of combativeness. Nor need we be concerned, after the events of the last few decades, with any passivity deemed to inhere in Buddhism. The place to look, in order to answer our question, is in the ordinary characteristics of Southeast Asian social life. It is true that people are malleable: peaceful Mongolian herdsman are the descendants of the irresistible hordes of Genghis Khan; and gentle Laotians have been turned into fierce, armed ideologues. But the salient characteristic of Southeast Asian cultures is their combination of social adjustment, on the part of the individual, and tenacity on the part of the family, clan, village or ethnic group. Even religion, so divisive everywhere, is regularly syncretized in these nations, in the interest of social harmony.

In comparison with Westerners, Southeast Asians display significantly greater skills at finding out what the stranger wants, making him feel that his needs are being attended to, and still getting what they themselves want or refusing change that is deemed undesirable. The stranger — from over the mountain or from overseas — is in fact being treated much as one treats one's fellows, save that the stranger lacks placement: one does not yet know what can be expected of him, what claims he will recognize and respond to. This way of dealing with members of some out-group illustrates two sides of a matter that impinges directly on social defence: on the one hand, sensitivity and — it may be — literally disarming behaviour; and on the other hand, the intricate network of claims made and recognized, which is but the operational description of a community based on mutual reliance and on high levels of fairly subtle communication. And to the extent that such societies are still age-graded, with distinct forms of address for those older and younger than oneself, and one concerned to mark precise grades of blood kinship, marital affinity and even fictive familial relations — to this extent we have a network both precise and resilient, one highly functional to social defence.

None of this is meant to suggest that Southeast Asians are incapable of dour hostility towards perceived enemies. It took the Japanese very little time to dissipate the Filipinos' resources of supple adjustment in World War II and to throw most Filipinos back on behaviour that ranged from sullen acquiescence to murderous guerrilla activity. But then no one had organized the Filipinos into any anti-invader activity other than guerrilla warfare.

Can we distinguish between defenders' response to the individual invader soldier and their behaviour towards an occupying army or its local component? Can we say that disarming behaviour will "work" with the individual but that

neither Asians nor anyone else are likely to generate the required subtle and supple approach to hardened invaders in the mass? Armies devote some attention to unit-integrity: keeping the soldier from losing his effectiveness as he responds as a person to the blandishments or terrors provided by the enemy. Unit-integrity is always difficult to maintain among occupation troops. It is made easier when the civilian populace can be pictured as sheltering dangerous saboteurs and armed guerrillas and when the populace itself feels disarmed and vulnerable because its own army has been defeated. Their resentment and fear, projected on the occupation soldier, reinforces his identification with his fellows.

Social defence builds a different set of circumstances. The defenders' army has not been defeated. It is that very populace itself. And it has not been disarmed. Its weapons can be lost or taken away only when that populace gives up or begins to fight with weapons like those of the invading army. The social defenders present no physical danger to the enemy soldier, thus removing one potent source of unit-integrity. The defenders can vary their demeanour at will, from sullenness to attitudes that make the enemy soldier begin to think for himself or at least to begin to question the appropriateness of today's orders. And, if today's orders, perhaps in time also question the purpose of the occupation. He will come to hear of men like himself who have left their units and been helped into secure refuges, perhaps by the very people he sees today. He cannot know, perhaps, if this is true. But slowly, in his mind, it has come to be what might well be true.

The exigencies of life in some strata of Western societies are such that a soldier's first sense of a functioning community may be what his military unit provides. This is unlikely to be the case in Asia. Harsh discipline, strong ideology or great danger shared together may produce something like community. But heavy doses of ideology may lose their efficacy as the soldier confronts a populace patently concerned only to go about its normal activities. Nor can physical danger be invoked as a means to bind him to his role as an occupying soldier. Under such conditions, the possibility of finding what he really wants or really misses — a place and a substitute family — may well come to seem greater among the "enemy" populace than among his fellows.

To all who value military discipline and what it can accomplish, it is distasteful to speak of its systematic subversion. If armies can be made to rot from within under the conditions described above, are we not in danger of losing an instrument we sometimes need? Is social defence some Frankenstein's monster, knowledge of which ought to be suppressed? It is not an eccentric concern; we can sometimes feel more respect for a worthy adversary in combat than we can for the directing intelligences on our own side. Is social defence something that saps military virtue?

Let us remember two things. On our own side, social defence is a disciplined, organized defence of homeland and heritage. It is the civilians, with the invaluable aid of those with military training and skills (a matter dealt with in part III), who must exercise and reinforce among themselves just those attitudes and tasks that make or made an army worth having. Now it is the civilian populace,

armed only with a way of life and with that discipline, who are the army. The purpose and spirit of the historic armed forces are thereby maintained and even extended. And if, secondly, we are truly concerned with the future effectiveness of the enemy's army, the remedy against social defence-induced rot is simple: let that army go home and take up the honest man's task of defending his own country instead of invading someone else's.

Rotation of enemy troops will probably only slow down the pace of gaining victory over occupation troops. And rotation will not help the enemy at all in his homeland. If the occupied nation and its allies have done their work properly, accurate knowledge of affairs in the occupied land, independently verified news of the unprovoked excesses of occupation troops and of defections from their number, will have been disseminated in the enemy's homeland. Modern communication devices and techniques make this task easier than it was before. Returning troops will, in broad outline and sometimes in detail, be able to confirm these accounts. Attempts by military security agents to forestall or punish those returnees who speak up will only raise further questions among troops yet to be sent and among the enemy populace itself. A social defence, then, can have powerful and not completely controllable effects in the homeland of the invader, effects that can be far more dangerous to the enemy than the sight of coffins coming home from the war front in some other sort of war. Indeed, the safest part of a war against a social defence nation is the invasion itself. After that, the hazards increase for the invader.

III

Social defence will not be cheap. It will, of course, vary. In highly technologized countries such as Canada and France, the complexities the defenders would introduce into their own regular communication channels (in order to be able to use them for their own purposes at any time) would cost nearly as much as the whole social defence budget of a nation like Malaysia. But it cannot cost more than it is worth. Even the massive back-up systems and other redundancies necessary to successful social defence are perhaps a better investment than a squadron of modern fighters vulnerable to loss on the ground or, it may be, in a morning's air combat or worse: subject to obsolescence whether or not a shot is ever fired. The attrition of social defence manpower and material is slower; and replacement may more easily be arranged. A society less dependent than the West on high technology will manage this replacement still more effectively though not, in proportion, at lower relative cost.

What of the political effects of social defence preparation on the defending society? In the West, it has often been said that social defence depends upon political and economic democracy and even upon their further extension. There seems little warrant for this view. One can well conceive of effective social defence being mounted in well-established authoritarian regimes, traditional monarchies and guided democracies. It all depends on whether the people will follow political

direction and work to make this sort of defence effective. Nations with determined but modest-sized internal dissidence will have special problems, as will those with groups actively supporting the prospective invader or his aims. It would be idle here to suggest general remedies for what can only be dealt with in particular.

Nations in which the armed forces have a special political leadership role, active or latent, may have difficulties as they contemplate social defence for themselves. We must distinguish, however, between 1) nations in which the military rules by force, open or disguised, over an unwilling but perhaps resigned populace and 2) nations in which for historical reasons relating, perhaps, to liberation struggles or to some other circumstances, the armed forces are a generally accepted or even honoured part of the decision-making institutions of government. In the former case, recourse to social defence is unlikely. But so is effective military defence: factionalized, politicized, tyrannical armies are apt to be poor fighting forces. In the case of armies whose political roles are accepted or supported by the people, the matter is different. Here, the armed forces are more apt to share in the characteristics and aspirations of the rest of the people.

But what of the leaders of such armies? If dominant military leaders are more dedicated to hardware and to the receipt of deference than they are to effective defence, little can be done so long as these people remain in their positions. Or the fact that the personal convictions of generals can weigh more than the convictions of other men and women may, it is sometimes feared, block the unprejudiced consideration of social defence. This factor is by no means specific to Asia or Latin America. In the industrialized West, the structural power of generals, though it remains off-stage, is quite real.

Yet, military leaders must not be assumed automatically to be obstacles to the consideration or effective implementation of social defence. In the absence of the clearest indications to the contrary, the prime loyalty of generals must be assumed to be directed to the defence of the nation, not to any one mode of conducting that defence. It has often happened, in discussions of social defence, that it has been understood better and more quickly by military officers than by pillars of the peace movements. Some, indeed, may reject social defence for the same reasons that peace movement people often do: they have unitary views — perhaps ideologically determined — of what constitutes peace, war and defence. But social defence, like effective military strategy and tactics, deals with the concrete, not the abstract. While there is an important role for military conservatism, the most successful soldiers tend to be those most able, without prejudice, to give up one way, one method, one tool, in favour of another if it shows some promise of getting the job done.

Military leaders prepared to put defence first are in an excellent position to help assure that social defence gains a hearing and that, if adopted, it is as effective as possible. They have invaluable training in the evaluation of problems and in the execution of plans; they have wise counsel to give, both their own and that which has accumulated in their military institutions. And, as we shall see below, their armed forces have vital roles to play in training, in logistics and in other assign-

ments as the populace, with this necessary aid, becomes competent to conduct defence. Nor must we assume that military officers and trained personnel (who constitute a significant proportion of the population) will not themselves be active participants in social defence.

Liberation armies and armed forces that have come later in their countries' histories to occupy important political or social mobilization functions may also be thought to present problems for a nation's adoption of social defence. Southeast Asia is richly supplied with such forces; but they need not all be thought of as forces working on behalf of Western-style modernization. Nor are any of them mere predators battenning on their own people. There is no single pattern. The Thai experience of military presence in public affairs is quite different from that of Indonesia. Vietnam's experience is in some ways historically analogous to that of Indonesia; but the parallels mislead as much as they inform. Apart from the special case of the Indochinese nations,⁶ there are no instances of the armed forces being identified with a single ethnic group, economic class or political programme.

To this extent, they are above or apart from goals tied to the divisions within their nations. Thus, they are able in principle (and sometimes in fact) to act as a vehicle for the national interest as a whole. These histories and these roles do not suggest that such armed forces would automatically be unprepared to take on a non-military role in the defence of their nations. A potential difficulty arises when we focus on the internal security duties that some armed forces now carry. Secessionist and sectarian movements and regionally-focused subversion do present special problems, some of which must perhaps continue to be dealt with by means of military force. But most internal security activities now carried on by armies can, in fact, be devolved to some form of police. Many armies already distinguish in practice between units with an aptitude for this work and those reserved for other duties. The Philippine Constabulary provides an example of something that perhaps fortuitously grew up this way. Other nations may need to create mobile police formations from appropriate army units. Certainly, it would free the armed forces as a whole for a truly *national* defence role.

IV

The wider aims of the region as a collectivity cannot be fully realized until ZOPFAN, the zone of peace, freedom and neutrality, becomes a reality. But ZOPFAN will never be robust unless the Indochinese states are included in some fashion. Until now, no one has found a way to resolve this dilemma: ZOPFAN means a self-subsistent defence of the region, a defence that excludes dependence on large external powers. Yet, in order to include the Indochinese states and to unify the region strategically, major power guarantees seem to be necessary in order to bring these states into a stable regional arrangement.⁷

This paper has no magic solution for the problem. But social defence may help us to look at the issue in a new way. As matters stand today, Kampuchea remains an area in which surrogates for external powers do battle. Settling the

Kampuchean issue is the prerequisite to bringing Vietnam into a mutually profitable and politically constructive relation to the rest of Southeast Asia. ASEAN has tried various expedients and may be tempted towards a settlement that stops the shooting in Kampuchea but leaves Vietnam feeling imposed upon. In effect, the solution will look "Chinese" to Vietnam. An unknown factor is the extent to which the United States, for reasons of its own, wishes from time to time to remind Southeast Asians of China as a long-term menace. The United States may also prefer for the present to see an isolated Vietnam or one dependent solely on the Soviet Union. Or the United States can employ its own resources — grants and other aid — to keep Vietnam partially U.S.-dependent as a means of disciplining China, which is being treated in this case as a "card" to be played in the great struggle between the United States and the USSR. This procedure, however prudent or clever it may seem in Washington, leaves Southeast Asia a casualty, unable to ensure its own security, even if Kampuchea could be settled by some formula.

Such a consequence may not even be viewed as an unfortunate one by Washington. A strong ASEAN, especially one including the Indochinese states on some *de facto* basis, is less likely to be amenable to those who propose a "Pacific community". To this unsympathetic eye, these proposals have three purposes: 1) to create a military Japan card, 2) to erect an economic framework that can handle what Washington cannot cope with on its own: Japan's economic power, and 3) to ensure that Southeast Asian markets remain open to those goods the United States is able to provide for sale. The inducement offered to ASEAN, for abandoning the search for regional self-determination, is U.S. protection from undue Japanese commercial penetration.

Quite apart from the undesirability of ASEAN becoming a party to the playing of Japan as a cold war "card", the proposal strikes at the ability of Southeast Asian nations to seek their own ends. It reintroduces external guarantors — and external guarantors with a record of playing other people as cards. It diffuses political and economic power over a Pacific area so wide that only a superpower could consider it a region. It institutionalizes Southeast Asian vulnerability to economic factors controlled elsewhere. Were not Southeast Asian economies so weak already (in part because of already-existing economic predation from outside), perhaps few in the region would let short-run enticements loom larger than the long-term hazards to the nations and peoples of the region.

But, once again, how do we deal with these external players? The ASEAN nations will never have the means to fight large battles on the Asian mainland against a major power. Their seapower will remain unable to prevent naval incursions or to interdict main-force air strikes from a major power. How, then, is Southeast Asia to achieve both ZOPFAN and its concomitants: economic self-direction and the defence capability necessary to underwrite ZOPFAN?

The social defence model suggests itself, so long as we do not mean some scheme rigidly applied to each nation irrespective of its own history and conditions. Indeed, it is of the essence of social defence that it must grow out of the percep-

tions, commitments and customs of each nation. Self-evidently, social defence for the Thais will differ from the same defence mode undertaken by the Filipinos. And the conditions of Singapore may not apply to the Philippines. Social defence in Marxist-led states will differ from that mounted in traditional or Westernizing nations. Its strength is increased by local adaptation.

Nevertheless, the model can be looked at in a generalized way, to see what gains might come from its employment to meet the predicaments that Southeast Asian nations experience. In most cases, defence costs would be lowered or at least not rise in response to "world conditions". Defence co-operation on a pan-ASEAN basis would become more possible, with the near-lapse of the ability of one member-state to make major incursions on another. Mutual aid — monetary, logistic, economic — could produce what the area does not now have: defence in depth against external threat. Lowered costs and the habit of extending some forms of social defence-oriented mutual insurance could lead also to further economic mutual aid and complementarity, enabling the region to deal with Japan more nearly on a basis of equality.

To fail to do these things, because one has not adopted social defence *or some equivalent that accomplishes the same ends*, is to run the very high risk of seeing oneself and one's neighbours employed as counters in externally-generated games or of having to enter (or to see one's neighbour enter) one of the newest sorts of neo-colonial economic and political relations simply because one must eat. That way lies disunity, dependency and the avoidable loss of ability to capitalize on one's heritage and resources.

NOTES AND REFERENCES

1. The exceptional cases of Vietnam and Kampuchea reinforce the point. Vietnam became the cockpit for two competing external forces, one ideological, one military. It may require many years now for a distinctive Vietnamese culture and a somewhat dogmatic regime to coalesce in a way that can project an international identity that will be accepted as Vietnamese and not merely that of the regime itself. In Kampuchea, a most un-Kampuchean style of settling matters was adopted by Kampucheans imbued with an external ideology, Kampucheans who reacted strongly against the casual brutality inflicted on Khmer and tribal cultures by the contenders in Vietnam.
2. Of course, populations in major urban centres may also express delight or satisfaction with the display of such weapons, equating them with national self-respect and with other important intangibles.
3. "Two Concepts of Defence" which subsequently formed part of his *Essays II* (Copenhagen: Ejlers, 1976).
4. It should be clear that social defence is neither of the political right nor of the left. It is compatible with traditional values, Pancasila, Confucian and other means of conserving the ancestral heritage or what is deemed to be proper proportionality in the conduct of public affairs. It need not reject some forms of modernization. And, given a continuation of the helpful evolution of nationally- and culturally-accented Marxism, social defence cannot be said to be directly anti-Marxist. It is, of course, conservative and nationalist if by those terms we mean a high evaluation of social cohesion and mutual obligation. Unlike some means of defence, it is not subversive of these bonds.

5. It may be that guerrilla activity can be physically separated from social defence, undertaken in a remote region. But that is likely to render it peripheral to the overall defence, unless the invader has some important installation there that can be interfered with or shut down by armed guerrillas.
6. I also except from this discussion the state of affairs in Malaysia, Singapore and the Philippines, because these nations' armed forces were built on Western models of separation from and subordination to civilian political leadership and have not to date departed from this model.
7. An important stimulus to the development of this section has been Sheldon W. Simon, "The Two Southeast Asias and China: Security Perspectives", *Asian Survey* 25, no. 4 (May 1984). Simon's concern is with the problem, however, and not with social defence as contributing to a solution.

Bibliographic note

Among the exponents of social defence (also referred to in the literature as civilian defence and civilian-based defence), the most accessible to those concerned pragmatically with defence is Anders Boserup and Andrew Mack, *War Without Weapons* (New York: Schocken, 1975). See also Mack's "The Strategy of Non-Military Defence" in *Strategy and Defence*, edited by D. Bell (Sydney: Allen and Unwin, 1983). A collection of papers from the founding conference in 1964 for the academic study of social defence contains papers ranging from contributions by military commentators like Basil Liddell Hart, to papers by civilian strategists like Adam Roberts, Thomas Schelling and Theodor Ebert, and to detailed comments by people coming to the field from popular movements against nuclear weapons. See Adam Roberts, ed., *The Strategy of Civilian Defence* (London: Faber, 1967). Many works by Gene Sharp, from 1957 to the present, begin social defence from a concern with non-violence and individual freedom. His forthcoming book, *Making Europe Unconquerable* (Drafts from Sharp, Program on Non-violent Sanctions, Harvard University, Cambridge, Mass., USA) shows a distinct move towards an analysis more nearly in accord with the approaches of strategists. J. Niezing, in "Rethinking Utopia: Some Sceptical Remarks on the Methodology of Civilian-Based Defence Research", *Bulletin of Peace Proposals* 13, no. 4 (1982), criticizes much of the older literature. My own papers "Deterrence and Social Defence", forthcoming in *BPP*, and "Canadian Defence and Canadian Identity", forthcoming in *Canadian Defence Quarterly*, explore doctrinal issues and the matter of cultural cohesion as a defence asset.

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DOCUMENTATION

Matters placed on record, confirmed and resolved by the Fifth Party Congress of the Burma Socialist Programme Party

The sixth-day session of the Fifth Party Congress of the Burma Socialist Programme Party placed on record three matters, confirmed eight matters and laid down four resolutions.

Matter placed on record 1: Amendments to the Party Constitution Procedures and amendments to the Party manuals confirmed by the Central Committee of the Burma Socialist Programme Party.

1. Amendments to the Party Constitution Procedures and amendments to the Party manuals confirmed by the Central Committee of the Burma Socialist Programme Party were presented to the Fifth Party Congress on 5 August 1985.

2. These amendments to the Party Constitution Procedures and amendments to the Party manuals confirmed by the Central Committee are placed on record by this Fifth Party Congress.

Matter placed on record 2: List of members of the Central Committee elected by the Fifth Party Congress.

1. The first-day session of the Fifth Party Congress held on 2 August 1985 prescribed the number of members of the Central Committee of the Burma Socialist Programme Party as 280.

2. The Fifth Party Congress elected 280 Central Committee members on 5 August 1985 in accordance with the Constitution, Procedures and Methods of the Burma Socialist Programme Party. The list of the names of the 280 Central Committee members thus elected was announced at the Party Congress on 6 August 1985.

3. The list of the names of the elected Central Committee members is placed on record by this Fifth Party Congress.

Matter placed on record 3: The list of names of the elected Central Committee Chairman, Vice-Chairman, General Secretary, Joint General Secretary and Central Executive Committee members, and those assigned duties by the Central Executive Committee.

1. The first meeting of the Central Committee held on 6 August 1985 elected the Central Committee Chairman, Vice-Chairman, Central Executive Committee members, General Secretary, Joint General Secretary, Party Inspection Committee members and Party Discipline Committee members. The Party Inspection Committee and the Party Discipline Committee elected their respective Chairmen and Secretaries. Names of persons elected and those who were assigned duties were announced at the Congress on 7 August 1985.

2. The list of names of the elected Central Leading Committee members and those

assigned duties by the Central Executive Committee is placed on record by this Fifth Party Congress.

Confirmation 1: The speech delivered by Burma Socialist Programme Party Chairman U Ne Win.

1. On the first-day session of the Fifth Party Congress of the Burma Socialist Programme Party Chairman U Ne Win delivered a speech on points to be always followed in carrying out works.

2. The speech of Burma Socialist Programme Party Chairman U Ne Win is confirmed by this Fifth Party Congress to be accepted and implemented by the Party, mass and class organizations, State machinery and the entire mass of people as guide to action.

Confirmation 2: The Political Report of the Central Committee submitted to the Fifth Party Congress.

1. The Central Committee submitted the Political Report to the Fifth Party Congress of the Burma Socialist Programme Party. The Political Report was discussed in support by 15 Party Congress delegates.

2. The Political Report submitted by the Central Committee is confirmed by the Fifth Party Congress.

Confirmation 3: Confirmation of the Fifth Four-Year Plan Guidelines of the Socialist Republic of the Union of Burma and the report thereon.

1. Fifteen Party Congress delegates discussed in support of the Fifth Four-Year Plan Guidelines of the Socialist Republic of the Union of Burma and the report thereon submitted to the Fifth Party Congress by the Central Committee.

2. The Fifth Four-Year Plan Guidelines of the Socialist Republic of the Union of Burma and the report thereon submitted by the Central Committee is confirmed by the Fifth Party Congress.

Confirmation 4: Confirmation of prescribing of the number of Central Committee members.

1. The matter for prescribing the number of members of the Burma Socialist Programme Party Central Committee as 280 by the Fifth Party Congress was submitted on 2 August 1985 and the approval of the Congress thereon obtained.

2. The prescribing of the number of Central Committee members as 280 is confirmed by the Fifth Party Congress.

Confirmation 5: The Central Committee candidature list.

1. In accordance with Burma Socialist Programme Party Constitution procedures and methods, a 280-member Central Committee candidature list co-ordinated by the Party Congress delegates in groups on 3 August 1985 and the agreement of the Congress was sought.

2. The 280-member Central Committee candidature list is confirmed by the Fifth Party Congress.

Confirmation 6: Reply given by General Secretary U Aye Ko regarding the Political Report of the Central Committee and the Socialist Republic of the Union of Burma Fifth Four-Year Plan Guidelines and report on the guidelines.

1. The Political Report of the Central Committee and the Socialist Republic of the Union of Burma Fifth Four-Year Plan guidelines were discussed and supported with suggestions by 30 Party Congress delegates. Reply to discussions was given by Party General Secretary U Aye Ko on 4 August 1985.

2. This Fifth Party Congress confirms that the points contained in General Secretary U Aye Ko's reply will be accepted as guidelines and continued to be implemented.

Confirmation 7: The preparation made by the Central Committee in advance regarding Paragraph 36 (a) of the Constitution of the Burma Socialist Programme Party.

1. The approval of the Congress was obtained on 5 August 1985 in connection with the preparation made by the Central Committee regarding Paragraph 36 (a) of the Constitution of the Burma Socialist Programme Party.

2. This Fifth Party Congress accepts and confirms the preparations made in advance by the Central Committee in connection with Paragraph 36 (a) of the Constitution of the Burma Socialist Programme Party.

Confirmation 8: The amendments to the Constitution, which did not involve principle and which would not cause any departure from original sense, made by the Central Committee.

1. The approval of the Congress was obtained on 2 August 1985 in connection with the amendments to the Constitution, which did not involve principle and which would not cause any departure from original sense, made by the Central Committee as empowered by the Fourth Party Congress.

2. The amendments to the Constitution, which did not involve principle and which would not cause any departure from original sense, which could be made by the Central Committee, are confirmed by the Fifth Party Congress.

Resolution 1. Resolution in connection with proposals for amending the Constitution of the Burma Socialist Programme Party.

1. The decision of the Party Congress delegates in connection with the proposals for amending the Constitution of the Burma Socialist Programme Party was taken by vote; more than 75 per cent votes of approval were obtained.

2. The Fifth Party Congress resolves to amend the Constitution of the Burma Socialist Programme Party as proposed.

Resolution 2: Resolution for delegating to the Central Committee the right to amend the Party Constitution in matters which do not involve principle and which would not deviate from the original sense.

The Fifth Party Congress resolves to delegate to the Central Committee the right to amend the Constitution of the Burma Socialist Programme Party in matters which do not involve principle and which do not deviate from the original sense; if necessary and that any such amendments made be reported to the nearest Party Congress for confirmation.

Resolution 3: Delegating power to the Central Committee to make changes if necessary, if there should arise unforeseen circumstances in the implementation of the Fifth Four-Year Plan Guidelines of the Socialist Republic of the Union of Burma.

The Fifth Party Congress resolves to delegate the right to the Central Committee to make changes if necessary if there should arise unforeseen circumstances in the implementation of the Fifth Four-Year Plan Guidelines of the Socialist Republic of the Union of Burma after reciprocal co-ordination within the framework of the 20-Year Long-Term Plan.

Resolution 4: Resolution in connection with the future tasks.

1. The following future programmes of work contained in the Political Report submitted by the Central Committee to the Fifth Party Congress has been confirmed together with suggestions in support by Party Congress delegates.

(A) POLITICS

- (1) To continue to strive for more dynamic, effective and extensive operation of the socialist democratic machinery.
- (2) In working for unity of national races:
 - (aa) to work for further strengthening of the Union spirit and the will to live together in perpetuity;
 - (bb) for all indigenous people to strive with might and main for peace, tranquillity and development in the country;
 - (cc) to concretise provisions of the Constitution.
- (3) To continue to work for mobilization of the entire people in the defence and security of the State.
- (4) To continue to work for elimination of insurgents and destructive elements by means of the people's abilities and strength.
- (5) To continue to pursue the Independent and Active Foreign Policy Burma is now pursuing.
- (6) To raise the standard of education in the country in accord with education policies and to work towards making contributions to development of the country.
- (7) To continue to work for extending health services with the co-operation of the people and at the same time to make more effective contributions towards the health and development of the people by means of indigenous medical science and methods.

(B) ECONOMY

In implementing the Fifth Four-Year Economic Plan:

- (1) to mobilize and utilize the people's strength in economic movements in creating a socialist economic system through plans on an extended scale, never losing sight of the objectives of the 20-Year Long-Term Plan;
- (2) to weigh and scrutinize conditions relating to population growth and food production capacity and to take necessary measures in advance;
- (3) to continue to promote exports and, also to take steps to make private services sector earn more foreign exchange;

- (4) to boost production of fuel and energy for production and service sectors in working to considerably boost commodity production;
- (5) to extend formation of State agricultural production organizations, agricultural production co-operatives and other production co-operative societies for increasing the ratio of State and co-operative ownerships;
- (6) to make arrangements to increase investment capacity in industrial sector while making arrangements to make investments to boost production in agriculture, livestock and fishery and forestry sectors through systematically drafted investment plans;
- (7) to systematically assess and work according to situation to meet resources needed for implementing plans in order to ensure greater success of plans;
- (8) to constantly work to minimize wastage, loss and damage in various work sectors;
- (9) to implement regional self-sufficiency and regional development plans region-wise imperatively;
- (10) to systematically draft and implement a manpower plan for full and most effective utilization of the people's abilities and strength;

(C) ORGANIZATION

- (1) To work to improve the calibre of individual Party members and organizational ability of the Party organizations;
- (2) To strive for greater dynamism of Party leadership by bringing about a common ideological view, common political outlook and common organizational style among Party members and Party cadres;
- (3) To continue to consolidate Party organizations at different levels and render organizational activities more active and dynamic;
- (4) To strive for the all-round development of the entire mass of youths to turn them into good and able persons fully qualified ideologically, politically and organizationally.
- (5) To work to strengthen and broaden mass and class organizations and raise the leadership role;
- (6) To organize for the acceptance of Party leadership by the entire people in the various areas of socialist construction activities.

It is unanimously resolved by this Fifth Party Congress that the programme of future tasks contained in the Political Report of the Central Committee be implemented effectively and successfully as the programme of future tasks of the Burma Socialist Programme Party.

SOURCE: *The Working People's Daily*, 8 August 1985.

Speech by U.S. Secretary of State George Schultz to the Senate Judiciary Committee on 17 September 1985

Mr Chairman and distinguished members of the Committee, it is a pleasure to consult with you on the U.S. refugee admissions ceiling for fiscal year 1986. This annual consultation affords the administration and the Congress an opportunity to discuss the refugee situation in the world and the humanitarian response to this situation by the United States.

Since the end of the Second World War, the United States has provided haven to literally millions of refugees. They have arrived in waves: first from Eastern Europe, then from Cuba, then, in the 1970s, from the Soviet Union, and most recently, from the countries of Indochina. All of these countries and regions continue to produce refugees, and the United States accepts more of them than any other resettlement country. We are a nation founded by refugees, and our national life has been reinvigorated throughout our history by recurring waves of refugees. I think it is well that we remember this as we consider the question of how many new refugees we should admit to the United States in the coming fiscal year.

This is the second consecutive year in which I have been privileged to present the President's refugee admissions proposal to the Congress. In doing so, I would again like to thank the members of this Committee for their continuing support for the U.S. refugee program — which includes both the admission of refugees to the United States, and the important overseas assistance efforts to which the United States contributes.

Proposed Refugee Admissions in Fiscal Year 1986

Mr Chairman, I turn now to the President's proposal for refugee admissions in fiscal year 1986. The President proposes to establish a ceiling of 70,000 for refugee admissions to the United States in the coming fiscal year. This total will be broken down into 3,000 for refugees from Africa; 40,000 for East Asia first asylum; 8,500 for the Orderly Departure Program from Vietnam; 9,500 for refugees from Eastern Europe and the Soviet Union; 3,000 for refugees from Latin America and the Caribbean; and 6,000 for refugees from the Near East and South Asia.

The President is proposing a ceiling of 3,000 for Latin America and the Caribbean in the hope that Cuba will end its suspension of the U.S.-Cuban Migration Agreement of December 1984. If, however, Cuba does not terminate its suspension of the migration agreement, a portion of the numbers will be transferred on a quarterly basis to other regional ceilings to accommodate unforeseen increased admissions needs. If these numbers are not needed elsewhere, they will be allowed to lapse.

As was the case last year, the President wishes to maintain a separate ceiling for admissions under the UNHCR's Orderly Departure Program (ODP) from Vietnam. This separate ceiling serves two purposes. It reassures the ASEAN countries that an expanding ODP will not mean a decrease in resettlement from the first asylum camps; and it sends a clear signal to Hanoi that the United States is prepared to make good on its offer to accept a large number of Amerasians and "re-education camp" prisoners.

Aside from the uncertainties connected with the Cuban and Vietnamese programs, the proposed regional admissions ceilings should be adequate to provide for refugee resettlement needs during the coming fiscal year.

The United States and the World Refugee Situation

Once again in 1985, the United States has played a major role in responding to urgent refugee needs — both through life-saving assistance overseas and through resettlement in the United States where necessary. Although this consultation is primarily concerned with refugee admissions, I would like to mention briefly the U.S. role in assisting refugees abroad.

The United States continues to provide the largest share of financial support for the office of the United Nations High Commissioner for Refugees (UNHCR) — some 30 per cent of its budget, or, 107 million dollars in fiscal 1985 — as well as for other international relief organizations, such as the International Committee of the Red Cross — over 26 million dollars in this fiscal year. The United States maintains its leading role in support of the U.N. Relief and Works Agency in the Near East (UNRWA) — initially providing 67 million dollars in contributions for this fiscal year, and then an additional 8 million dollars from the President's Emergency Fund to help UNRWA avoid a curtailment of services due to extraordinary budget problems. It is our hope that these international organizations will take an even more active role in providing assistance to refugees in the coming year.

The United States has been deeply involved during the past year in providing emergency assistance to refugees and others suffering from the effects of drought and civil conflict in Africa. The U.S. government will have contributed almost 200 million dollars for all aspects of refugee assistance in Africa this fiscal year alone. I would note, in particular, our rapid intervention in Sudan in response to requests for assistance from the UNHCR and the government of Sudan which contributed to the saving of thousands of refugees' lives.

Other notable developments in the U.S. refugee program during the past year have been:

- The continued expansion of the UNHCR's Orderly Departure Program from Vietnam. Some 12,000 refugees and immigrants will leave Vietnam under this program in fiscal year 1985 for new lives in the United States. Continued expansion of the ODP is essential to our goal of ending — or at least diminishing — the dangerous phenomenon of clandestine flight by sea from Vietnam.
- Through our contributions to the U.N. Border Relief Operation (UNBRO) and other international relief organizations, we have played a principal role in ensuring that Cambodians forced to flee into Thailand in order to escape Vietnamese armed attacks have been able to maintain some semblance of a normal life.
- Elsewhere in Asia, U.S. contributions to refugee assistance in Pakistan have helped sustain the 2.5 million Afghan refugees there, and allowed them to pursue their lives while awaiting the day when they can finally return to their embattled homeland.
- In Central America, the growing vitality of the Duarte government is attested to by the continuing return of Salvadoran refugees to their country from Honduras. The United States applauds this development and will continue to provide assistance, both through international organizations and bilaterally, to help those who return.
- A major achievement of the past year was aborted when Fidel Castro announced the suspension of the U.S.-Cuban Migration Agreement just after the first Cuban ex-political prisoners had arrived in the United States on May 20. The United States is prepared to resume processing of refugees in Havana as soon as Cuba decides to reactivate the migration agreement.

The Indochinese Refugee Situation Today

Mr Chairman, our large Indochinese resettlement program is at a transition point. The root cause of the refugee problem in Southeast Asia is clear. The outflow of refugees from Vietnam, Cambodia and Laos is a direct result of the imposition of communist oppression on the people of these countries. The United States has responded to this great human tragedy by offering new homes and the chance to live in freedom to hundreds of thousands of Indochinese refugees. The goal of the U.S. refugee program has been to treat these refugees from persecution in as humane a fashion as possible. I believe that history will pass a favorable judgment on our efforts.

Over the last ten years some 755,000 refugees have arrived in the United States from Indochina. About 52,000 of the 71,000 total refugee admissions in fiscal year 1984 came from Indochina. The same proportion is expected in fiscal year 1985. Even though current resettlement programs have declined dramatically from high levels of 1980-82, we believe they have been responsive to the true humanitarian needs for the region.

As with any program, however, we must continue to be sensitive to the need to balance refugee resettlement from Southeast Asia with other U.S. interests and concerns. Indochinese refugee resettlement must be balanced against other, regional solutions; balanced as a fair share of an international resettlement effort; balanced in terms of its budgetary implications; balanced in terms of other immigration and domestic policy considerations; and balanced against the need to provide resettlement to deserving refugees from other parts of the world.

To achieve this balance, the United States — working with the UNHCR and other nations — is pursuing measures to address the remaining refugee problems in Southeast Asia. There are two general categories of measures that either have been implemented or are being considered.

First, increasing emphasis is being placed on international and bilateral measures to reduce the number of persons arriving in first asylum countries who do not meet refugee criteria.

An example of this type of measure is the Lao screening program initiated on July 1, 1985, by the Thai government. This program, which is being monitored closely by the UNHCR, is designed to identify the true refugees as defined in international law. Essential to the successful operation of this program is agreement by Laos to allow the safe return of those found ineligible for refugee status. We are following the results of this program with great interest.

The second category of measures is aimed specifically at assuring that the U.S. refugee program fits the current situation in the region. Available evidence suggests that people leave the Indochinese countries today for a variety of reasons: to escape persecution, to seek a better standard of living, or to join family members who have previously fled. Our objective is to ensure that the U.S. refugee resettlement program is available exclusively to those who have been persecuted or have a well-founded fear of persecution if returned to their homelands, and who cannot reasonably expect to voluntarily repatriate or resettle in another country.

Those who have left their homes primarily for reasons of family reunification should, to the degree possible, use normal immigration programs which have been established for that purpose. In this connection, we will continue to work on improving the availability and use of safe and orderly migration programs from the countries of origin.

In furtherance of this second approach, the relevant agencies have been studying the

proper use of departure mechanisms for the future, including the increased use of normal immigration channels for the family reunification segment of the Indochinese resettlement program. Our intention is to take a regional approach to the use of immigration, as well as refugee admissions, and to include all ethnic groups within this approach.

Also, I am commissioning a high level, independent panel that will be going to Southeast Asia in the near future with a broad mandate to assess the refugee situation and to make recommendations on necessary changes in U.S. policy.

I want to emphasize that, as we review the refugee situation as it exists in Southeast Asia today, we will continue to be guided by our bedrock concern for humanitarian principles. Furthermore, our national refugee policy will continue to be based on thorough consultations with the Congress, with the first asylum countries in the regions, other primary resettlement countries and the UNHCR.

Non-Resettlement Solutions in Southeast Asia

While resettlement remains a necessary means for dealing with the refugee situation in Southeast Asia, other solutions within the region must be pursued more vigorously. Such measures, in particular, the alternative of voluntary repatriation with appropriate safeguards and international monitoring — may require negotiation of agreements by the UNHCR with the states concerned.

The U.N. High Commissioner's Orderly Departure Program from Vietnam

In our consultations with the Congress last September, I announced, on behalf of President Reagan, two special initiatives for expanding the High Commissioner's Orderly Departure Program from Vietnam.

One of these initiatives called for the admission to the United States of all Amerasian children and close family members from Vietnam over the three fiscal years 1985 through 1987.

The second initiative called for the resettlement in the United States of political prisoners currently and previously confined in Vietnam's "re-education camp" prisons and their qualifying family members, totaling 10,000 persons over the two year period, 1984-86.

The United States presented these two presidential initiatives to the Vietnamese in Geneva last October.

We have had success in nearly doubling the number of Amerasians released by the Vietnamese — almost 4,000 children and family members this year compared to 2,200 in fiscal year 1984 — however, the Vietnamese failed to reach our goal of 5,000 for the first year.

We are, however, greatly disappointed that the Vietnamese have not as yet responded positively to our proposal for the "re-education camp" prisoners. After the initial presentation, the United States has twice proposed to Vietnam that we meet to continue discussions on this proposal, but so far the Vietnamese have not agreed. In unofficial conversations, Hanoi has indicated that it is backing off from its earlier announced willingness and commitment to allow these people to be resettled in the United States.

Mr Chairman, I would like to reaffirm again today that the United States is profoundly concerned about the continued imprisonment of these people and that we remain ready and willing to accept them — both former and present prisoners — and their families for resettlement in the United States as soon as the Vietnamese authorities will allow them to

leave. This is a purely humanitarian matter and should not be made dependent on the settlement of the political differences that separate our two countries.

Next month, we will be meeting with Vietnamese representatives in Geneva, under UNHCR aegis, to discuss the operation of the Orderly Departure Program. Our goal remains the expansion of this vital international program. We will be seeking agreement by Vietnam to improvements in the operation of the ODP which will enable more Amerasian children and other persons of special humanitarian concern to the United States to leave Vietnam via this safe and humane route. We are prepared — as we were last year — to hold bilateral talks with the Vietnamese on our humanitarian initiative to resettle the former and present “re-education camp” prisoners.

It is our intention to continue to maximize the use of immigrant visas for family reunification within the ODP, thereby reserving refugee numbers for those who have no alternative but to leave as refugees.

Assistance to Cambodian Border Population in Thailand

Mr Chairman, the large population of displaced Cambodians living in evacuation camps in Thailand is of intense concern to the United States. I had an opportunity during my visit to Thailand in July to meet and talk with some of these heroic people of Cambodia who have been driven from their homeland by Vietnamese armed attacks on their border encampments.

The violence of the latest attacks — occurring over the period from November 1984 through April 1985 — was such that the entire border population of over 225,000 people — men, women and children — was driven into Thailand. The government and people of Thailand and the U.N. Border Relief Operation (UNBRO) have responded magnificently to the plight of these victims of Vietnamese aggression. The United States will continue to provide support to this population and to the people of Thailand whose lives have been disrupted by the impact of Vietnam's attacks.

Mr Chairman, we and the other resettlement countries support the policy of the Royal Thai government that the evacuees from the border area should be provided all necessary assistance, but that resettlement abroad should not be viewed as the solution to their plight. However, we have decided, subject to Thai government approval, to initiate a limited program to unite close family members with relatives already in this country primarily through immigration-type channels. This program will include those eligible for immigrant visas, “Visas 93” for spouses and unmarried minor children, and selected use of humanitarian parole for close dependents in the two preceding categories.

Also of special concern to the United States are a group of Vietnamese who have fled overland to the Thai-Cambodian border and were evacuated into Thailand along with the Cambodian border population. Although the United States has previously accepted some of them for resettlement, approximately 4,500 remain under Red Cross protection at one of the evacuation sites, which also houses much larger numbers of Khmer border evacuees. Because of our concerns about the unique security problem of this small but especially vulnerable population, we are supporting a Red Cross initiative to obtain agreement to relocate the land Vietnamese to a separate and more secure location. As soon as necessary security provisions and international cooperation can be obtained, the United States is prepared to initiate a limited program to resettle those with close family ties to the U.S. and those of particular humanitarian concern, such as former “re-education camp” inmates.

The United States is greatly concerned about the quality of life in the evacuation camps.

We will be working with UNBRO and the Royal Thai government to upgrade camp conditions and to ensure security for camp inhabitants. In addition, the administration — and the Congress — are looking at ways that this large Cambodian community can be provided an opportunity for educating its young people so that they can be better prepared for the day when they can return to their homes on the other side of the border. The Royal Thai government has also expressed an interest in the education of these Cambodian children. In consultation with the Congress, we will be working with the Thai and with various international organizations, and with the Cambodians themselves, to devise a program to respond to this important need.

Completing Resettlement Processing for Cambodian Refugees

The United States has been in the forefront of the effort to resettle qualified refugees from the population of Cambodians in UNHCR camps in Thailand. The approval rate for Cambodian refugees seeking resettlement in the United States has been over 90 per cent, one of the highest for any group of refugees. Since the beginning of Cambodian resettlement processing in 1975 the United States has taken over 130,000 and other countries have resettled over 60,000. This is a record of which we can all be proud.

Recently, public and Congressional interest has been focused on the processing of remaining Cambodian refugees in Thailand for resettlement in the United States. The Subcommittee on Asian and Pacific Affairs of the House Committee on Foreign Affairs held a hearing on July 31 at which this subject received a thorough review. It should be clear to all concerned that the objective of the U.S. refugee program remains the fairest possible consideration of all applicants for refugee admission. However, where there are indications that a refugee applicant has participated in the persecution of others, he cannot — under U.S. law — be granted refugee status, unless he can prove that he has not participated in such activities. Determining whether or not someone engaged in the persecution of others during the period of Khmer Rouge atrocities in Cambodia is a difficult and time-consuming task. I believe that the U.S. Immigration and Naturalization Service, working closely with the Department of State and the concerned voluntary agency representatives, has reviewed the denied cases in a just and reasonable manner. The established review mechanism, which was formalized last February, remains in place to reconsider denied cases.

Refugee Admissions from Other Regions

Mr Chairman and members of the Committee, although we extend a strong and helping hand toward the refugees of Southeast Asia, we must not forget the needs of the millions of refugees in other regions of the world. In most cases these refugees do not require third country resettlement. They are being given long-term asylum in Pakistan, throughout Africa and in Central America. Our goal and the goal of the High Commissioner for Refugees is to assist these people to maintain themselves until they can return safely to their home countries. A certain number of them will continue to require resettlement in the United States, and we have made provision for their admission to this country in our proposed admissions ceilings for fiscal year 1986.

I would like to note in particular the need to address refugee admissions backlogs of Eastern Europeans, Iranians and Afghan. Our goal in the Near East is to continue to provide resettlement opportunities in the U.S. for those refugees with close ties to this country and for those of special concern, such as members of the persecuted Iranian religious minorities.

We plan to continue to provide resettlement for a fair share of Eastern European refugees, who flee to Western Europe. Hopefully, the proposed ceilings will reduce the waiting time for these applicants.

Despite fluctuations in departure rates in recent months, there does not appear to have been any basic change in the Soviet policy of restricting emigration. As in past years, I will reiterate to the Soviet Foreign Minister when I meet with him later this month that the Soviet Union has an obligation, undertaken when it signed the Helsinki Accords, to permit those who wish to join their families abroad to do so.

As already mentioned in the discussion of our contingency plan to transfer unused numbers from the Latin American admissions ceiling to other regions in fiscal year 1986, the United States remains ready to reactivate the U.S.-Cuban Migration Agreement on short notice. When Fidel Castro suspended the agreement in May, some 1,800 ex-political prisoners and accompanying family members had been tentatively approved for refugee status. Our goal is to bring these and other former prisoners to the United States, along with their families. We hope that Castro will soon decide to drop his unilateral suspension of the migration agreement, making possible a continuation of our program for ex-political prisoners in Cuba.

Providing Adequate Funding for the Refugee Program

Refugees are an international responsibility, but traditionally the United States has been the leader in rallying support for assistance to the burgeoning world refugee population. Working through the UNHCR, the International Committee of the Red Cross and other organizations, the United States has made protection of those fleeing oppression a key component of its foreign policy. By assisting the persecuted we demonstrate our own attachment to the values of freedom and human dignity. It would be a severe blow to these values if, due to well-meant but misguided attempts to save money, the Congress sustained the large cuts in refugee program funding proposed by the House Appropriations Committee in July. These cuts — amounting to 45 million dollars from an administration request of 338 million dollars — when combined with 9 million dollars in earmarks added by the Congress, would leave insufficient funds to operate a viable, worldwide refugee program.

At the funding level currently being proposed by the House Appropriations Committee, we would have to drastically reduce refugee admissions in fiscal year 1986. A sudden drop, from the fiscal year 1985 level of 70,000 admissions, would seriously threaten the preservation of first asylum for refugees in Southeast Asia and elsewhere in the world.

Similarly, the funds available for relief and assistance would be inadequate to maintain subsistence and survival for thousands of refugees in Southeast Asia, the Middle East, Pakistan and Latin America. Our African relief efforts would also be affected adversely.

All of us recognize the need to restrain expenditures in the coming years, but our foreign policy interests and humanitarian concern for refugees at home and abroad cannot be carried out if these budget cuts are sustained. The President's FY-1986 request for refugee programs already reflected the need for budget restraint.

Conclusions

In the 12 months since I last appeared before this Committee we have accomplished much on behalf of refugees. The President's initiatives in favor of Amerasian children and political prisoners in Vietnam remain at the top of our agenda of unfinished business. We will continue to pursue a solution to the other persistent and difficult refugee problems in South-

east Asia. In close consultation with Congress and our allies, we will examine new approaches to dealing with these problems. With the cooperation of the Congress we will maintain our commitment to those refugees in need of life-sustaining assistance in Africa, Asia and Latin America. We must not forget that the great majority of refugees today are found in the poorest countries of the world and can only be helped through international efforts. With the support of Congress and the American people, we will keep our doors open to refugees of special concern who suffer persecution at the hands of tyrannical governments and for whom there are not effective and humane alternatives.

The cost of our refugee programs is small compared to the vast needs that they must address. To those of you on this Committee and to your colleagues elsewhere in the Congress who have given your active support to the President's refugee assistance budget request, I express my appreciation. This is truly a non-partisan program and one that deserves your strong support.

Thank you.

SOURCE: United States Information Service, Singapore.

BOOK REVIEW

Malaysia: Economic Expansion and National Unity. By John Gullick. London: Ernest Benn; Boulder, Colorado: Westview Press (Nations of the Modern World Series), 1981. Pp. 290.

John Gullick's new volume, more a rewrite than a mere revision of earlier editions, has proved a disappointment to this reviewer — and not because it fails to live up to some preconceived standard, or expectations of excellence engendered by previous work, but because of bewildering variations of quality within the book itself.

One cannot speak too highly of the first six chapters (setting the scene up to Independence) as models of sensitive geographical, historical, sociological and political exposition. This is Gullick, the former Malayan administrator and historian well read in most of the recent literature, giving of his emotional and intellectual best (though East Malaysia receives short shrift). Chapters 9 and 10, on manifold aspects of the modern economy, also constitute a valuable contribution, at the level of succinct but sophisticated introduction. Here the expertise of Gullick as a Guthries Director provides the reader with information and understanding rarely conveyed by texts in this kind of "country series".

But the account seems to falter at Chapter 7 (an abbreviated analysis of "The Making of Malaysia") and meets serious difficulties in Chapter 8 ("Politics and Government"), with loss of direction, and lapsing into depreciatory cliché, and some surprising inaccuracy. For instance, the fifteen Singapore Members of Parliament in the 1963 Federal Parliament are said to have been "elected" (p. 118); the descriptions of the constitutional crises in Sarawak, 1966, and Kelantan, 1977, badly exaggerate and understate, respectively, the role of central *realpolitik*, while the rise of a centrally directed coalition in Kelantan from 1973 is effectively denied (p. 121); and the Islamic Party seems to have been known only recently as PAS (p. 123). The most serious error concerns the alleged abolition of Chinese-medium primary education (pp. 227, 249, that is, in Chapter 12, "Education, Language and Culture", and Chapter 13, "A Changing Society"). Equally mysterious is the claim that Britain has recognized the present government in Cambodia (p. 208, that is, in Chapter 11, "Defence and Foreign Policy", which deals briefly with the new situation in Indochina and its impact on Malaysia and ASEAN).

The two Guthries colleagues who read the manuscript missed the errors and presumably found it acceptable that new intellectual currents in Malay nationalism are left out entirely (but for one footnote on Islamic revival), and that the New Economic Policy is written up in a frequently uncomplimentary tone. The writer is almost "trendy" in his concern about inequalities in contemporary Malay society (even taking the neo-Marxist Kessler at face value on Kelantan), but if the Malay successor élite is not optimally "accountable" to those for whom it acts "in trust" (p. 153), one is tempted to point out that Guthrie Corporation was not accountable to the local population either. This, at any rate, is a Malay nationalist

perspective on the post-colonial economy, which should have received prominence in a book which has much to say about rubber. The fact that it has not, but that the author responds to the new Malaysia with more than a hint of alienation and incomprehension, not only flaws the presentation, but may throw unintended light on some of the causes of recent Anglo-Malaysian tensions.

Roger Kershaw

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The United States and Cambodia: The Limits of Compromise and Intervention

JUSTUS M. VAN DER KROEF

I

The modalities of "fighting while talking with the enemy" — the strategem that bedevilled America's course in the Vietnam war and confronts it again in Nicaragua — are also catching up with the United States in the Cambodian conflict. On 19 January 1985, in the midst of the most intense Vietnamese offensive against Cambodian rebels thus far, U.S. Assistant Secretary of State for East Asia and the Pacific, Paul Wolfowitz, declared after discussions with Thai security officials in Bangkok that the United States would not provide any military aid to the Cambodian rebels. The reason, Wolfowitz said, was that such U.S. aid would set back efforts to reach a political solution in the Cambodian conflict, and hence the role of providing rebel assistance "should best be taken by others".¹ On 25 April 1985, however, in a letter to the chairmen of the foreign relations committees of the U.S. House and Senate, Assistant Secretary William Ball III declared that the Reagan Administration now welcomed a proposal approved by the House Foreign Affairs Committee on 20 March 1985 to extend US\$5 million in military aid to the two non-communist Cambodian rebel factions. Ball said, however, that the Administration's agreement was contingent on the United States retaining control over the aid through the U.S. Military Assistance Program.²

It had taken more than a month for the Administration to endorse the House Committee's action and the Reagan Administration reportedly had been reluctant to support any programme of military aid to the Cambodian rebels.³ The idea of granting such aid was first formally suggested by the House Foreign Affairs Committee's Chairman, Representative Stephen J. Solarz (D.-N.Y.). Solarz's journey to Vietnam, Laos and Cambodia during the last week of December 1984 had led him to conclude, *inter alia*, that not only was Vietnam as yet unwilling to engage in any serious discussions to end the Cambodian conflict, but that, indeed, Hanoi seemed intent on driving a wedge between the Cambodian rebels and their supporters, namely, the People's Republic of China and ASEAN (the Association of Southeast Asian Nations).⁴

Even when on 11 February 1985, ASEAN Foreign Ministers, after a special meeting in Bangkok called to consider the implications of Vietnam's widening offensive in Cambodia, issued an international appeal urging all countries to provide military aid to the Cambodian rebels in their struggle, there had been no public

U.S. response. Perhaps, quite deliberately, the Reagan Administration was seeking to give the impression that it could only reluctantly be pushed by others into making a military commitment against the Vietnamese communists in Indochina, at the very time that mixed emotions were stirring U.S. public opinion with the approach of the tenth anniversary of the fall of Saigon. Or else, perhaps, there was concern in Administration circles that — especially after the appeal of its ASEAN friends and allies — a refusal to support the non-communist Cambodian rebels would seem a strange inconsistency for an Administration so committed to winning approval of Congressional aid for the Nicaraguan “Contras”. Illustrative, again, was the Administration’s reaction to the adoption by the House Foreign Affairs Committee of the proposal to provide military aid to non-communist Cambodian rebels. On the day after the adoption of the proposal, a comment by the State Department spokesman simultaneously “welcomed” the House proposal and declared that “there is no need for U.S. military assistance at this time”.⁵ In any case, the Administration’s ultimate volte-face was carefully managed. One of the main leaders of the non-communist Cambodian rebels, former Cambodian premier Son Sann, was first duly invited by the Administration to come to Washington and make the necessary political rounds. Sann publicly declared after meeting with Secretary of State George P. Shultz that his rebel forces needed arms⁶ — a statement which, in view of the House action and the Solarz initiative, was akin to kicking in an open door.

To be sure, the Reagan Administration’s “fighting while talking” approach in Cambodia is in keeping with ASEAN’s own policy tactics in the Cambodian affair. Indeed, when it comes to Cambodia the United States usually prefers to have ASEAN set — or be perceived to set — the pace. Secretary of State George Shultz once put the U.S. position succinctly when, in discussions with ASEAN Foreign Ministers in Bangkok at the close of June 1983, he said flatly, “We follow your lead”, adding: “We know that the chances of persuading Vietnam to change its course are greater if the message comes from its neighbors”.⁷

Such diplomatic modesty may well have been pleasing to Shultz’s ASEAN hosts, even as they probably readily see through it. After all, the United States has some persuasive force to put behind any “message” that it cares to send Hanoi. Vietnam deeply desires a diplomatic normalization with Washington, and its anticipated corollary, a broadening of access to badly needed development capital. On 1 May 1985, for example, Vietnam’s Party Politburo member Le Duc Tho, who negotiated the 1973 Paris peace agreement with Henry Kissinger, urged the United States to drop its obstacles to a normalization of relations with Hanoi. Tho reiterated what he had already said a month earlier in a French news agency interview that such a normalization would “contribute to the establishment of stability in the region”. At about the same time, Hanoi’s Foreign Minister Nguyen Co Thach expressed his “great admiration and respect for the American people” (as distinct from the U.S. Administration), urging an “end to the war of words between us”, something that “can only happen” through a diplomatic normalization.⁸

For the United States, however, these are but empty appeals, designed to legitimize the status quo of the Vietnamese conquest of Cambodia. Thus far, in the U.S. view, the Vietnamese have given no clear indication that they genuinely mean to withdraw their forces from Cambodia and allow Cambodians to choose their own government freely. Meanwhile, "the denial of trade and assistance by the West" to Vietnam, as Assistant Secretary of State Wolfowitz put it in September 1984, "imposes a cost on Vietnam in terms of benefits foregone, and presents it with a clear choice".⁹

That Hanoi is sensitive to this U.S. argument and, in recent months, has sought to give the impression that it is not only willing to withdraw its forces but even willing to consider free elections in Cambodia, will be described presently. First it should be noted, however, that neither the rigidities of the above-cited U.S. policy pronouncements, nor the fact that two ASEAN members — Singapore and Thailand — already were supplying such weapons even before ASEAN's international appeal on 11 February 1985 for arms for the Cambodian rebels, should obscure an apparent readiness "to talk" with Hanoi, either on the part of ASEAN or the United States.

Such readiness perpetually seems to exist in ASEAN despite occasional gloomy gestures to the contrary. For example, at the end of January 1985, virtually at the height of the Vietnamese 1984-85 offensive, Malaysia's Deputy Foreign Minister Kadir Sheikh Fazir declared that because of Hanoi's new attacks, ASEAN had abandoned efforts at direct negotiations with Hanoi. He added that it was useless to attempt to mediate. No new initiatives from ASEAN were likely, Fazir said, unless Hanoi "convinces us" that it was serious in seeking a negotiated solution to the Cambodian conflict. But on 29 April 1985, Malaysia's Foreign Minister, Tengku Ahmad Rithauddeen announced that during an "unofficial" meeting of ASEAN Foreign Ministers attending the thirtieth anniversary of the Asian-African Nations Conference in Bandung, Indonesia, the week before, it had been decided that ASEAN was ready with a new formula for negotiations and was proposing so-called indirect "proximity talks" between the Cambodian rebels and the Hanoi-supported "People's Republic of Kampuchea" (PRK) government in Phnom Penh. The two Cambodian sides would not face each other across the same conference table, but, rather, would sit in separate but adjoining rooms, and negotiations would be carried forward through ASEAN intermediaries.¹⁰

Hanoi's reaction at first seemed negative, but the communiqué issued by the eleventh conference of the Foreign Ministers of Kampuchea, Laos, and Vietnam at Phnom Penh on 16 August 1985, termed Malaysia's "proximity" idea to be worthy of "examination". If Hanoi was hedging its bets at this point it was only a case of *reculer pour mieux sauter*. For by early November 1985, at the United Nations, Vietnam let it be known that it was now ready to agree to *direct* talks between the Cambodian rebels of the CGDK (Coalition Government of Democratic Kampuchea) and the PRK.¹¹ Almost at the same time, as we shall see, the United States appeared to be moving towards advocacy of a similar compromise mechanism.

First, it may perhaps be noted that the "proximity" discussions are reminiscent of another mechanism of negotiation, the ill-fated so-called "five plus two" formula developed in discussions between Thach and Rithauddeen during the Seventh Non-Aligned Nations Conference in New Delhi, in March 1983. "Five plus two" refers to the then five ASEAN countries (Malaysia, Indonesia, Singapore, Thailand and the Philippines; Brunei joined ASEAN in 1984), and two Indochina states, Vietnam (the Socialist Republic of Vietnam or SRV) and Laos (the Lao People's Democratic Republic or LPDR). Since ASEAN and Vietnam each back a different Cambodian faction, that is, the former supporting the Cambodian rebels allied in a "Coalition Government of Democratic Kampuchea", and the latter recognizing the above-mentioned PRK, Thach suggested that the SRV-LPDR represent the PRK at any discussions. ASEAN presumably would have represented the CGDK. Thach also emphasized that recognition *per se* of the PRK was "not a precondition for a dialogue" with ASEAN.¹²

The whole "five plus two" concept quickly collapsed, however, because of the opposition of the pro-Beijing communist faction in the CGDK which felt that it should not be excluded from any discussions. This opposition almost certainly reflected Beijing's disapproval of the "five plus two" notion as well. The United States never formally expressed its views on the matter, and, subsequently, in the face of the implicitly negative Chinese reaction, became even less inclined to do so.

Yet, from time to time, the United States, confronted for more than two years now by a growing ASEAN weariness of Washington's extra measure of caution, if not unwillingness, has been taking more of an initiative in solving the Cambodian conflict, even to the point of eventually echoing what have been essentially Vietnam's, ASEAN's or the CGDK's diplomatic gambits. One example came during September and October 1984. In the course of 1984 Thach was particularly active in visits to Indonesia, Australia, Thailand, and Japan, in trying to get the Cambodian issue off diplomatic dead centre. Then on 12 September 1984, during an interview with Japan's *Kyodo* news service representative in Hanoi, Thach again called for "unconditional" discussions with ASEAN, and added that the SRV was now prepared to consider a peace-keeping role by an international supervisory and observer team in Cambodia.¹³ The idea of such a team to monitor a Vietnamese troop withdrawal and the staging of free elections in Cambodia originally had been proposed by ASEAN in September 1983. But it had been rejected by the SRV and PRK on the grounds that it infringed on PRK sovereignty. Thach also told the *Kyodo* reporter that the SRV would accept Japanese mediation efforts in the Cambodian dispute.

The Reagan Administration, though undoubtedly mindful of the failure of earlier Japanese mediation proposals, was quick to praise Thach's 12 September 1984 *Kyodo* interview suggestions as a "welcome development".¹⁴ In the event, however, the discussions which Thach had in Tokyo in early October 1984 soon floundered, among others, over the issue of the participation by the pro-Beijing communist faction in any future international discussions. Yet even then, the U.S. State Department spokesman, Alan Bromberg, on 3 October 1984, endorsed the

idea of a broad "regional" conference on Cambodia, in which the United States along with other superpowers, ASEAN, and the other parties to the 1954 Geneva Accords on Cambodia would participate.¹⁵ This same notion had been mooted by Thach in his Tokyo talks.¹⁶

A year later, the United States appeared to be edging still closer to ideas for compromise machinery voiced earlier by major participants in the dispute. In his United Nations General Assembly address on 24 October 1985, President Reagan included Cambodia among other global hot spots, such as Afghanistan and Nicaragua, where a standard peace formula could be applied. This formula would include negotiation among "the warring parties in each country", followed by joint Soviet-American support for any agreed upon "national reconciliation" settlement, and finally, a "welcoming" of each country in conflict back "into the world economy" (read: an end to blockades and an opening of international credit sources). Hanoi's above-noted agreement to direct CGDK-PRK talks dovetails with the Reagan proposal, as does CGDK President Norodom Sihanouk's often repeated call for "national reconciliation" discussions among the Cambodian disputants. Vietnam is eager for more diversified foreign aid, and hopes that a normalization of diplomatic relations with the United States will speed its "welcome" back "into the world economy". This Vietnamese dream is unlikely to be realized unless Hanoi withdraws its troops from Cambodia. And equally important: will China necessarily agree to the form that a Cambodian "national reconciliation" settlement takes? Hanoi remains adamant that the China-backed Khmer Rouge faction of the CGDK will have no place in any post-conciliation regime. Not even the United States, always solicitous of China's views in the Cambodian question, is likely to be able to persuade Beijing of this.

II

During the seemingly endless diplomatic jousting between ASEAN and Vietnam over Cambodia, the United States, though formally a committed partisan, has seen wisdom in not getting too close to the fray. Even now a "political solution" is officially considered possible, despite a formal move to supply the non-communist Cambodian rebels with arms. The U.S. diffidence comes not just because of the lingering effect of the Vietnam war in American public opinion, but it also stems from concern over a genuine risk of becoming mousetrapped in Thach's own contradictory and shifting positions.

Over and over, for example, Hanoi has maintained that the Cambodian problem is not a matter for international involvement; indeed, the Indochinese Foreign Ministers' conference, held in Ho Chi Minh City in January 1985, even praised some ASEAN countries for their position that the Cambodian issue is not even primarily a problem between ASEAN and the Indochinese states!¹⁷ Yet, in his Tokyo discussions the previous October, Thach had proposed an international conference of the superpowers, the United Kingdom, France, India, ASEAN, and the Indochina states.¹⁸ *Nota bene* that the January 1985 Indochinese Foreign

Ministers' conference also favoured "convening of an international conference to discuss all problems related to peace and stability in Southeast Asia".¹⁹ High on the Indochinese agenda for such a conference doubtlessly would be matters, discussion of which would prove embarrassing for the United States, such as Hanoi's often repeated insistence that the root cause of the Cambodian problem and of "instability" in Southeast Asia generally is Chinese "aggression", or the presence of U.S. military bases in the Philippines.

Even if a conference were to focus on internal Cambodian issues, Vietnamese policy pronouncements do not give all that much hope for a settlement. For example, as the United States has pointed out, the SRV refused to attend, let alone accept the decisions of, a U.N.-sponsored International Conference on Kampuchea (ICK), convened in New York, in July 1981. These decisions, *inter alia*, included a provision that free, U.N.-supervised elections should be held in Cambodia, giving all Cambodians (including the China-backed Khmer Rouge) the right to determine their own government.²⁰ The January 1985 Indochinese Foreign Ministers' conference communiqué, mentioned earlier, also reads that the Indochinese countries "once again reiterate" their readiness to work for a Cambodian solution that would encompass not only a Vietnamese troop withdrawal, but also the "Cambodian people's right to self-determination" through "the holding by the Cambodian people of free general elections" in the presence of "foreign observers".²¹ However, the Khmer Rouge (referred to as the "genocidal Pol Pot clique") are to be excluded.

To complicate matters, ASEAN was quick to reject the suggestions of the Ho Chi Minh City conference communiqué. And in subsequent months spokesmen for individual ASEAN states reiterated that rejection by emphasizing that the communiqué had contained nothing new, adding, as did Thai Premier Prem Tinsulanon, that Beijing too shared ASEAN's thinking on this point and that "Vietnam does not seem to have sincerity in settling the Cambodian problem".²²

Whether this ASEAN rejection may, in hindsight, not prove to have been a little too quick off the mark, remains to be seen, particularly so in the light of the nearly simultaneous, earlier-noted, effort by ASEAN to become a formal "mediator" in the Cambodian dispute via "proximity talks" between PRK and CGDK representatives.²³ And what is one to make of the distinction made, in early November 1985, by Vietnamese Minister of State Vo Dong Giang between Khmer Rouge participation in possible future "national reconciliation" *discussions* and in the actual "national reconciliation" *settlement* at the end of the discussions? In this serpentine diplomatic course, coming to different and indeed directly opposite negotiating stances from those previously held, and then nearly doubling back to old ones, has been a common experience. Enough so as to underscore the danger for the United States in joining in new initiatives too quickly.

III

To the problem of dealing with ambiguity if not contradiction in the policy pronouncements of friends and antagonists in the Cambodian conflict, there has, since the early months of 1985, been added for the United States the disturbing reality of a radical change in the conditions of the Cambodian battlefield itself. Another Vietnamese offensive is clearly slated for 1986. Elsewhere, the military significance of the Vietnamese dry season offensive of 1984-85 has already been noted.²⁴ In rapid sequence, one border encampment of the CGDK rebel forces after another fell to a concentrated 25,000-man Vietnamese-PRK military onslaught. Among the camps were the three major centres once dominated by and serving as principal recruiting conduits for the principal non-communist CGDK faction, the Khmer People's National Liberation Front (KPNLF), led by former premier Son Sann: Nong Chan (overrun on 23 November 1984), Rithisen (25 December 1984), and Ampil (8 January 1985). On 14 February 1985, the Vietnamese captured the Phnom Malai refugee-rebel complex, including Phum Thmey which had served as a major command post for the Khmer Rouge. On 11 March 1985, the Vietnamese overran Tatum camp, the principal stronghold of the third CGDK member, variously called the *Armée Nationale Sihanoukiste* (ANS), Funcinpec (an acronym for the French name for "National Union Front for an Independent, Neutral, Peaceful and Cooperative Cambodia"), or Moulinaka (*Mouvement de Libération Nationale du Kampouchea*).²⁵

The time frame of all these attacks is important. The conciliatory proposals put forth by the 17-18 January 1985, Indochinese Foreign Ministers' conference in Ho Chi Minh City — for example, free elections in Cambodia, and an international conference to deal with "all problems" of peace in Southeast Asia — tended to be devaluated by ASEAN and the United States as the severity of the Vietnamese border campaign became apparent. Already on 26 December 1984, shortly after the fall of Rithisen camp, the U.S. State Department had branded as "contemptible" Vietnam's "continuing aggression" against the "civilian camps and non-communist military forces" at the border.²⁶

The drive against the arc of refugee-rebel border camps forced nearly 200,000 Cambodians to seek refuge across the border in Thailand. Relations between the Bangkok government and the Vietnamese were strained even further as Vietnamese "hot pursuit" of rebel units and Vietnamese artillery barrages repeatedly spilled over into Thai territory. Not least was the severe military setback for the 14,000-strong KPNLF rebel force, the 3,000-strong ANS, and the 40,000-member Khmer Rouge, or "National Army of Kampuchea". Though Vietnamese dry-season offensives against the rapidly growing border "refugee nation" of some 250,000 inhabitants in the border camps had regularly occurred in the previous three years, the 1984-85 campaign was the most far ranging and intense, as the Vietnamese used Soviet-built T-54 tanks, 155 mm howitzers, new armoured personnel carriers and communications equipment in their assault.

Clearly, Hanoi was determined not just to demolish the encampments of the

Cambodian rebel guerrillas who thus far had always seemed to be able to regroup, but also to disperse and neutralize the insurgents, and, above all, to discredit the CGDK permanently as a potential political alternative to the PRK regime. The head of the tripartite CGDK coalition, Prince Norodom Sihanouk, rightly sensed the latter Vietnamese objective as the most dangerous to his own organization's survival. As Sihanouk put it, the capture of the border bases had affected the "credibility" of the CGDK, particularly in the international arena.²⁷ Though on 5 November 1985 the U.N. General Assembly, with the largest vote ever (114 in favour, 21 against, and 16 abstentions), again called on Vietnam to withdraw its forces from Cambodia, there is little doubt that without a major countervailing force on the ground in Cambodia, further U.N. votes on the Cambodian question may soon become wholly academic.

For Hanoi, unlike in previous years, does not intend to allow the CGDK units to return to their former bases. SRV-PRK forces are rapidly developing further a logistical network at the border, including access roads, command posts, and communications systems. For the United States, perhaps particularly worrisome is that this new aggressive control policy of the Vietnamese has meant more intense collisions with one of its important Southeast Asian allies, Thailand. Border skirmishes, including artillery exchanges, between Thais and Vietnamese have been common in the past three years. But in the first half of May 1985 it came to, perhaps, the sharpest Thai-Vietnamese clash thus far, when SRV forces, in pursuit of Cambodian rebels, crossed into the Muang district of Thailand's Trat province, and began to dig in on the Banthad mountain range. The Vietnamese brought a fresh battalion of troops, as well as 105 mm and 130 mm howitzers, and Soviet-built T-54 and T-56 tanks, in order to keep their mountain stronghold. A Thai Defence Department spokesman, Admiral Niphon Sirithorn, warned that the Vietnamese action could result in "outright war" unless the Vietnamese withdrew, and the U.S. State Department "strongly condemned" the Vietnamese invasion into what Washington called "clearly Thai sovereign territory".²⁸ After heavy fighting, involving a total of about 6,000 troops on both sides, the Vietnamese finally retreated into Cambodian territory.

But the Banthad incident seemed to be part of a developing pattern of more frequent and more forceful Vietnamese intrusions, followed by a Vietnamese "digging in" and fortification process in strategic locations on Thai soil in order to control Cambodian rebel movement, and ending only after increasingly costly Thai counter-attacks, a cost perhaps designed to induce a reluctance in Bangkok to risk "outright war". Moreover, the Banthad clash clearly had rendered nugatory the Thai-Vietnamese agreement of mid-January 1985 — concluded by both sides in the field at the height of the Vietnamese dry-season offensive and after various clashes had occurred — establishing a demilitarized zone at the border and designed to prevent just the kind of incident that had, in fact, taken place.

Thailand's overall sensitive position as ASEAN's "frontline state" has, in fact, become more precarious because of the success of the Vietnamese-PRK 1984-85 border sweep. Senior Thai commanders today, perhaps with an eye on

Washington, do not hesitate to voice their concern publicly. On 17 April 1985, for example, the Commander of Thailand's First Army Region, Lieutenant General Phicit Kunlawanit, basing himself on information he said he had gleaned from defecting Thai communists who had been in Hanoi, declared that he personally believed that Vietnam intended to invade a part of Thailand.²⁹ Such talk may reflect a fear that Thailand's friends may not be reliable.

In February 1979, after Vietnam's troops had ousted the Khmer Rouge from Phnom Penh and occupied Cambodia, it will be recalled that China administered what it called a "punitive lesson" to Vietnam, by invading North Vietnam in force and remaining there in partial occupation for about four weeks before withdrawing. In January 1985, the Chinese Foreign Ministry in Beijing, and China's Foreign Minister Wu Xueqian, in Bangkok personally, warned Hanoi to stop its "intrusions" into Chinese and Thai territory. In Bangkok, Wu said he wished to "assure the fraternal Thai people" that if Hanoi did not "stop provoking", then China "will not stand idly by". Later in Kuala Lumpur, Wu reiterated that China reserved the right to "teach Vietnam a second lesson" if it continued its provocations.³⁰

The 1984-85 Vietnamese dry-season offensive (interspersed with Chinese charges of continuing Vietnamese provocations along the Vietnamese-Chinese border) has come and gone, however, without another Chinese "lesson". Indeed, Beijing now tends to belittle the SRV's capture of "some resistance" bases, and asserts that the Vietnamese now find themselves "in a difficult position" as Cambodian rebels are presently carrying out "coordinated guerrilla operations" inside Cambodia.³¹ Such operations, on a limited scale, are in fact taking place. But they can be of only little comfort to a Bangkok government wondering whether the chain of Banthad-like incidents, coupled with Vietnam's evident determination to secure the Thai-Cambodian frontier zone, may not embolden Hanoi into seizing the strategic high ground — even if that high ground is across the border in Thailand. The more so, if in such a venture Hanoi also could count on some internal Thai assistance. Thai communism at present is all but shattered. Thai officials have repeatedly noted in recent months that at least 2,000 pro-Hanoi Thai communists are being trained in Vietnamese-run camps in Laos, just across the Thai border; and Vietnamese troops in Laos are reportedly providing the Thai communists with further support facilities.³² Meanwhile, Hanoi brands Thailand as having become a "sanctuary of reactionaries" and as a "dangerous pawn" of China in the latter's tactic of "opposing the revolution of the true Indochinese countries".³³

The U.S. commitment to Thai security at present is hazily defined at best. And, in the aftermath of the debacle of the U.S. venture in Vietnam, when Thailand served as an important base for U.S. operations, the Bangkok Government prefers it that way. Still, although SEATO (the Southeast Asia Treaty Organization) was formally dissolved in 1977, the 1954 Manila pact (Southeast Asia Collective Defense Treaty) remains in force. Under Article 4 of the Manila pact, "aggression by means of armed attack" against any of the treaty parties shall

be considered as endangering the "peace and safety" of the other parties and requiring action to meet "the common danger" in accordance with constitutional processes.³⁴ On 6 March 1962, U.S. Secretary of State Dean Rusk and Thai Foreign Minister Thanat Khoman, in amplification of their understanding of the treaty, had issued a joint statement in Washington, D.C., which had declared, *inter alia* that in the event of a "Communist armed attack" on Thailand, the United States intended to give "full effect" to its responsibility under the Manila treaty, and that it was prepared to do so unilaterally, if need be, since the obligation under the treaty "is individual as well as collective".³⁵

IV

Both Thailand and the United States today, however, despite — or perhaps precisely because of — the Vietnamese border pressure on Thailand, have preferred not to raise the Manila pact or the never-repudiated Rusk-Khoman agreement. Diplomatic wisdom, for now, is seen to lie in the lack of specificity. The accelerated withdrawal of U.S. forces from Thailand since the mid-seventies, did not mean, after all, an end to U.S. participation in sophisticated intelligence gathering facilities in Thailand which monitor military movements in the adjacent Indochina states. Nor has it meant an end to periodic U.S. participation in the bilateral naval manoeuvres between Thailand and its ASEAN partners in the Gulf of Thailand and the South China Sea. Nor has it affected bilateral U.S.-Thai military manoeuvres: in July 1985, some 10,000 U.S. and Thai troops, supported by U.S. tactical aircraft, staged "Cobra Gold", the largest such joint exercise in Thailand's Sattahip province since the series began four years ago. Nor, again, has it ended the periodic well-publicized rushing of U.S. military aid to Thailand when the Vietnamese intrude on Thai soil. Of the total value of US\$1.1 billion in arms received by Thailand between 1978 and 1982, the United States alone supplied US\$825 million, the largest amount in U.S. arms transfers to any ASEAN country.³⁶

Yet, all such U.S. treaty and arms supply commitments, as the Thais well know, eventually may become much less relevant if the pattern of Banthad-like incidents and Vietnamese determination to secure the border leads to the protracted, incremental, military campaign which Hanoi knew how to apply so well in the Vietnam war itself. Even now, a China reluctant to teach a "second lesson" (mindful perhaps of the implications of the November 1978 Soviet-Vietnamese Friendship and Cooperation Treaty) is still likely to be a stronger guarantor of Thai territorial integrity than a U.S. administration already facing sharp questions over its Central American policy and in which critics profess to see a possible repetition of the Vietnam war. Hanoi hardly is unaware of the U.S. quandary. By pursuing its tactics of incremental pressure at the Thai border, and raising the spectre of "out-right war", Hanoi probably also hopes to exert further leverage on the United States and on the more compromise-minded ASEAN members, such as Indonesia

and Malaysia, to come to a settlement of the Cambodian conflict — on Vietnam's terms.

One alternative to this, also urged by ASEAN as we have seen, is to strengthen the rebel troops of the CGDK. And, to be sure, certainly the Khmer Rouge's "National Army" and, to a lesser degree even Son Sann's KPNLF, are hardly a wholly spent military force. By 8 April 1985, KPNLF guerrillas had already mustered sufficient strength again to counter-attack and retake briefly part of their Nong Chan camp which the Vietnamese had overrun on 23 November 1984. Meanwhile, sharp KPNLF-Vietnamese battles erupted around another former KPNLF base at Rithisen.³⁷ Observers agreed that the Khmer Rouge suffered limited casualties (for example, about 300 men at the taking of their Phnom Malai base complex) in the Vietnamese 1984-85 offensive. The Khmer Rouge almost immediately began penetrating more deeply into the interior of Cambodia, cutting major Vietnamese communication and supply lines, and even shelling the provincial capital of Siem Reap.³⁸

As the Vietnamese today seek to seal off the Thai-Kampuchean border with mines, bamboo-spiked trenches, barbed wire, and stepped-up patrolling, all designed to inhibit the return and regroupment of Cambodian refugee rebels, the KPNLF, Khmer Rouge, and Sihanoukist forces, in turn, seem ready for an increasingly more mobile, far ranging, guerrilla war in the interior. The "Magenot line" strategy of vulnerable border camps has been abandoned, having served its "showcase" purpose of demonstrating to "the whole world that we existed", as KPNLF leader Son Sann put it.³⁹

In this new phase of rebel strategy, a U.S. commitment of military supplies, in fact, signals a readiness to turn the whole of Cambodia into Vietnam's "Vietnam". Is such a policy wise; indeed, is there still time for it? In the wake of Vietnam's 1984-85 offensive, SRV spokesmen, particularly in the course of April 1985, emphasized that unless the United States, ASEAN and other interested powers were ready now to talk with Hanoi, "the thing will solve itself militarily", in the words of Le Duc Tho.⁴⁰

The problem is that the exact mix of "talking" and "fighting" is a source of serious dissension within ASEAN itself, and the extent of any U.S. commitment to either is bound to be divisive. This circumstance too must impede a clear definition of any U.S. policy to compromise or intervene in the Cambodian conflict. In Indonesia, even before the Reagan Administration's willingness to send arms to the non-communist Cambodian rebels was announced, the United States was being criticized for "using only the 'stick' against Vietnam", and for not offering any constructive initiatives.⁴¹ In talks with U.S. Assistant Secretary of State Paul Wolfowitz in Jakarta in early March 1985, Indonesia's Foreign Minister Mochtar Kusumaatmadja said that he had urged the United States to consider normalizing diplomatic relations with the SRV, because this would make a Cambodian solution more likely.⁴² The United States has consistently rejected such normalization so long as Hanoi maintains its forces in Cambodia.⁴³

Subsequently, the news that the United States was prepared to supply arms

to the non-communist elements of the CGDK met with little enthusiasm in Jakarta. At first, the Indonesian Foreign Minister was repeatedly quoted as saying that he was opposed to such aid, but later he said that such U.S. aid "was not unwelcome", provided that it would not jeopardize "the main policy" of ASEAN of seeking a "political solution to the Kampuchean problem."⁴⁴ Even as Mochtar was speaking, SRV Defence Minister General Van Tien Dung was just ending his Indonesian visit. After having seen his Vietnamese guest off, Indonesia's Armed Forces Commander, General L.B. Murdani, reiterated his conviction that Vietnam does not pose a threat to Southeast Asia today, because "they are so poor".⁴⁵ Murdani, who thrice has held discussions in Vietnam in the past five years, had raised eyebrows by making a similar statement after his February 1984 visit to Hanoi, adding afterwards that Vietnam's presence in Cambodia today was a "question of survival" for the Vietnamese, necessitated by "China's threat" to their country.⁴⁶

Clearly more interested in "talking" (and finding a diplomatic "carrot") than in "fighting" with Vietnam, Jakarta today shares Hanoi's long-term strategic concern over the dangers posed by a resurgent, modernized China and its enduring policy interest in a politically compliant South China Sea area. The "mix" is different for other ASEAN members. For example, S. Dhanabalan, Singapore's Foreign Minister, welcomed the fact that the U.S. Congress was "responding to public opinion" by now being prepared to give aid to Cambodian resistance groups.⁴⁷ Influential military circles in Thailand and the Philippines share this view. But in Malaysia and Brunei, there is a tendency to agree more with the Indonesian position.

V

While this division in ASEAN is disquieting enough, even more of an impediment to a definition of U.S. policy in Cambodia is the division within the CGDK itself, a division that can only be augmented by the U.S. decision to give aid to CGDK's non-communist components and to keep disavowing the Khmer Rouge. This, even though the latter are by far the strongest and best equipped of the three coalition partners. Since its formation as an alliance of convenience in Kuala Lumpur on 22 June 1982, harmony within the CGDK between the Khmer Rouge and the non-communist Sihanoukists and KPNLF often has been hard to find. Sihanouk has repeatedly threatened to resign as CGDK head; most recently in April 1985. Old political quarrels still divide Sihanouk and KPNLF President, Son Sann, a veteran Cambodian politician and at one time Sihanouk's premier. CGDK rifts also reverberate in ASEAN. In mid-January 1985, Indonesia's Mochtar complained that while the CGDK was winning domestic Cambodian and international recognition there was a serious "lack of cooperation" among the three CGDK factions.⁴⁸

The stigma of the bloody era of Pol Pot's rule in Cambodia (1976-79) continues to cling to the Khmer Rouge faction of the CGDK, and indirectly affects the whole image of the CGDK itself. The United States is well aware of this and has

sought to distance itself from the Khmer Rouge as much as possible. In elaborating U.S. policy on the Cambodian conflict in June 1984, for example, Secretary Shultz declared not only that the United States supported the Cambodian people's right to freely elect a new government after a Vietnamese withdrawal, but also, that he felt confident of the outcome of such an election: "It is given, I think we all agree, that free choice by the Khmer people would not result in a return to power of the Khmer Rouge. None of us wish such an outcome".⁴⁹

However, to the United States, let alone China, Hanoi's insistence, often voiced, that the Khmer Rouge must cease to exist, at least as an organized entity, poses not just political but also logistical problems. Would China perhaps be prepared to absorb 40,000 Khmer Rouge immigrants? It seems idle to speculate, since such a precondition is unlikely to be acceptable either to the Khmer Rouge or, more importantly, to Beijing, their faithful political supporter and weapons supplier. Hanoi's demand seems designed to scuttle the whole idea of a free Cambodian election anyway, and, not least, to embarrass ASEAN and the United States as well. After all, would "free" elections in Cambodia, on principle, not have to include the Khmer Rouge too? Otherwise what would become of American confidence that such elections would not result in a Khmer Rouge return to power?

VI

The problems of the Khmer Rouge emphasize how severely any U.S. initiative in the Cambodian conflict is likely to be circumscribed by the interests of other major powers. China itself has formally made a solution of the Cambodian problem a *sine qua non* for improved relations with the USSR; the intrusion of the Sino-Soviet conflict limits the scope of any American intervention in the Cambodian problem as well as attempts at compromise.

The essence of the problem here, however, is not just that Moscow and Beijing have their own proxies in the Cambodian conflict, but rather that each, because of broader strategic interests, also has a stake in preserving the present, limited level of conflict in Cambodia. To be sure, Moscow, more than Beijing, can support various seemingly promising initiatives at compromise, and appear more in the role of peacemaker. Thus, the USSR not only supported Hanoi's call for an international Cambodian conference (without the presence of the Khmer Rouge, to be sure), but also says it is prepared to act as "guarantor" of any peace settlement in Cambodia that the conference arrives at.⁵⁰ Thus, the Soviets have shown themselves ready to be guarantors of a Cambodian peace settlement even before the United States has done so.

Moscow, however, seems as unlikely to forego its current strategic advantages in the Indochina area as Hanoi its *de facto* domination of Laos and Cambodia. The Cambodian venture has made Vietnam into an international pariah, impoverished and heavily dependent on the Soviets. Moscow provides Hanoi with from US\$1.5 to US\$2 billion in aid annually. There are now at least 5,000 Soviet technical and military advisers in Vietnam and additional hundreds of

Soviets, East Europeans, and Cubans in Cambodia and Laos. Major SRV ports and military installations have become integrated into the Soviet strategic network: "Cam Ranh Bay now accommodates the largest concentration of Soviet naval vessels outside the Soviet Union" (that is, about a dozen warships, submarines and additional auxiliary vessels), according to the chief of U.S. Naval Intelligence.⁵¹ A politically and economically less isolated and dependent Vietnam hardly would seem to be in the Soviets' interest; the *status quo* of the Cambodian conflict is very much to its advantage.

It is so with China. At relatively little cost Beijing can keep the Cambodian pot boiling. More than the Soviets, the Chinese are prepared for the long haul in the Cambodian conflict. While not discounting the significance of the Soviet's current new strategic assets, the Chinese seem to count as much on Vietnamese war weariness, retardation of economic growth, and resentment of the Soviet presence and Vietnamese dependence on it, as on the persistence of the Cambodian rebels. Indeed, it is the official Chinese position that if the rebel coalition stays united it can beat the Vietnamese militarily.⁵²

Nothing seems to sway China from its demand that the Vietnamese must pull out from Cambodia first before any political settlement can be discussed. More importantly, as ASEAN in particular discovered to its cost during the U.N.-sponsored ICK in 1981 (cf. note 20 *supra*), Beijing will resist any attempt to undermine the position of the Khmer Rouge, now or in any future negotiated settlement. The Khmer Rouge, after all, is China's main lever in Cambodian affairs. As early as September and October 1984, a secret initiative by Sihanouk, looking towards his meeting with PRK envoys in Paris as part of his "national reconciliation" strategy, was blocked when China got wind of it. Beijing's spokesmen then also made it plain that they would not support a rebel coalition without the Khmer Rouge in it. But Hanoi insists on a political settlement without the "Pol Pot group".⁵³

China demands the Khmer Rouge's inclusion also in the belief that it is worth a little effort in order to achieve a possible Khmer Rouge return to power in Cambodian affairs. Until then, the Khmer Rouge's 40,000 "National Army of Kampuchea", supplied by and dependent on China, serves as a useful policy instrument for Beijing that none of the parties in the dispute can ignore. Resentment over China's inflexibility among ASEAN and Sihanouk supporters — indeed even an open call by Indonesia's Murdani that Vietnam and the rest of Southeast Asia should forge "closer ties" in order to face the potential threat from "a stronger China in the next century"⁵⁴ — all seem to faze Beijing as little, however, as the present, seemingly inexorable movement towards some sort of dialogue, including a new and limited international conference on Cambodia.

VII

For the United States, caution has seemed the better part of valour in dealing with this unpromising brew of failed diplomatic gambits, shifting but somehow always

deadlocked policies, and uncertain military strategies. It even derives benefit from the circumstance that, because of the Cambodian conflict, its ASEAN friends have found an important, integrating, diplomatic experience, one not to be dismissed lightly in a regional organization whose members often have precious little in common. Thus, for the United States too, there is, as yet, a certain advantage in the *status quo*. For the short term, a policy of applying, if only by proxy, a debilitating military pressure on Vietnam, while pursuing (some in ASEAN stress the need for more active pursuing) opportunities and possibilities for negotiation, therefore, seems appropriate.

But a policy of "fighting while talking", as the Vietnam war experience shows, has its own dynamics of denouement.⁵⁵ Sooner or later the ineffectiveness of such a policy is likely to lead to the conclusion that neither fighting, even by proxy, nor talking, nor their combination, is worth it. Closer attention to and discussion of the alternative scenarios likely to flow from such a conclusion seem needed now.

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6. *New York Times*, 11 April 1985.
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 29. *Bangkok Post*, 18 April 1985 (*FBIS*, 18 April 1985).
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 39. In an interview with *Le Quotidien de Paris*, 6 April 1985 (*FBIS*, 12 April 1985).
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49. "Challenges Facing the U.S. and ASEAN", *Current Policy* (Bureau of Public Affairs, U.S. Department of State), 13 July 1984, no. 597, p. 3.
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The Paralysis of Power: The United States and Cambodia

K.U. MENON

The United States as a superpower and a third party, faced with the problem of how to relate to an internal war, has, in theory at least, a number of obvious choices. It may in the first instance choose to aid or prop up the incumbent. It may alternatively choose to aid the insurgents, or finally, attempt some conciliation of the two. George Modelski has convincingly argued that the fourth option of total non-involvement in an internal war does not exist.¹ For a great power to do nothing automatically helps "the stronger party" (usually the incumbent) "to suppress the weaker irrespective of the merits of the case". This, as Modelski observes, is the meaning of Talleyrand's celebrated definition of non-intervention, "a mysterious word that signifies roughly the same thing as intervention".² Some degree of "involvement" or of "intervention" is therefore inevitable.

Recognizing that non-involvement is not a realistic option, however, one must expect that policy-makers may well hedge their bets. Thus, there may be mixes of covert and overt aid to both incumbents and insurgents combined with offers of "good offices". Shifting, ingenious and sometimes perilous combinations of advocacy, duplicity and mediation must be anticipated. The central thrust of a third party's involvement or intervention will focus on "foreign aid" — shoring up the incumbent; "subversion" — advising, arming, hosting or staffing the incumbent's adversaries; or "mediation" — risking the wrath of both warring parties.³

Angola

Prime examples of the exercise of the third option of hedging bets have been U.S. policies towards Angola and presently towards Cambodia. U.S. policy towards Angola prior to the 1960s was one which consistently and publicly took the side of the incumbent (that is, Portugal): the United States viewed Angola only through the optic of U.S. relations in Western Europe. However, from the beginning of the liberation war in 1961, the United States became deeply involved in Angolan affairs, adopting a policy described by Colin Legum as, "one of complete ambiguity" and more strongly by Roger Morris as that of "vacillation and hypocrisis".⁴ During this period, the public face of the Kennedy and Johnson administrations was to deplore the racist regimes of Portugal and South Africa at regular intervals at the United Nations and elsewhere whilst doing discreet business with

them on the side. Behind the scenes, the CIA (Central Intelligence Agency) provided covert aid to the Zaire-backed FNLA (Frente Nacional de Libertacao de Angola or National Front for the Liberation of Angola) to hedge U.S. bets against the possibility of a sudden reversal of Portuguese policy and a transition to African rule in Angola. This move helped also to underline U.S. support for President Mobutu of Zaire because of his close links with the FNLA and served also as a counter-insurgency effort to prevent Soviet penetration in that area.

In Angola, the United States and the West suffered a major setback. The United States blundered into a war in which the bedrock issue was not communism but simply, colonialism and the racial injustice of a white-dominated regime. Henry Kissinger and the Ford Administration overreacted to the harsh rhetoric and socialist advocacy of a Marxist-influenced liberation movement by identifying it as the enemy. Responding to the MPLA (Movimento Popular de Libertacao de Angola or People's Movement for the Liberation of Angola) as a Soviet pawn rather than as "a discrete if blemished African reality", Washington then waged against it in a losing contest with the Soviets.⁵ In contrast, Soviet activities in Angola bore the marks of a "restrained, carefully orchestrated test of American intervention and will" in the post-Vietnam era, as well as experimentation with a new mode of expanding its global influence — proxy war.⁶ The Soviets foresaw the political importance of the issue of colonialism and majority rule in the area and made major political and economic investments stretching many years back to position themselves to influence events and exploit opportunities. Subsequently, the Soviets chose to throw their weight behind the MPLA and calculated that it could carry out its operation with the Cubans and that the United States would either do nothing or blunder through. In all respects, Soviet calculations proved accurate and successful.

Cambodia

There are many parallels between Angola and Cambodia. As in Angola, the U.S. record in Cambodia has been callous, to say the least, and it was the fundamental decision to violate Cambodian neutrality that ultimately led to the thorough destruction of that country. President Nixon extended the war in Vietnam to Cambodia and failed in all his objectives in Indochina. What followed was the disintegration of a whole society. William Shawcross, author of "Sideshow" put it succinctly, observing that:

There are only two men responsible for the tragedy in Cambodia today, Mr Nixon and Dr Kissinger. Lon Nol was nothing without them and the Khmer Rouge were nothing without Lon Nol. Mr Nixon and Dr Kissinger gave the Khmer Rouge involuntary aid because the people had to support the Communist patriots against Lon Nol. By expanding the war into Cambodia, Nixon and Kissinger killed a lot of Americans and many other people, they spent enormous sums of money — \$4 billion — and the results were the opposite of

what they wanted. They demoralised America, they lost all of Indochina to the Communists, and they created the Khmer Rouge.⁷

The anguish and suffering endured by Cambodia's people have not been matched by the experience of any other nation in recent history. The survival of the Cambodian state has been an uncertain matter for more than two centuries and its recent past has included a five-year war which commenced in 1970, followed by a communist revolution which lasted until 1978, and then by foreign invasion and famine. And the awful suffering continues even today. Seven long years after Vietnam's invasion of Cambodia in 1978, a complex long-term stalemate endures. On one side, there is the Khmer People's Revolutionary Party (KPRP) headed by former Khmer Rouge military commander Heng Samrin, created and placed in power by Hanoi. The KPRP is a small force largely because of its inability to attract recruits; the regime depends heavily on some 5,000 to 12,000 Vietnamese "advisers" and would collapse without the continued presence of some 170,000 Vietnamese troops made up into ten PAVN divisions.⁸ A secret organization with the curious label, B68, based in Ho Chi Minh City, apparently oversees Vietnam's policy in Cambodia. The B in B68 represents *ban*, meaning "commission", and the organization is attached to the Vietnamese Communist Party Central Committee's Foreign Relations Commission headed by Le Duc Tho.⁹ In Phnom Penh, B68's extensive network is overseen by a team of deputy directors, including the Vietnamese Ambassador to Cambodia, Ngo Dien. Vietnam's purpose in invading and occupying Cambodia is no mystery. The objective is quite clearly to incorporate the country within a tight structure of exclusive political relationships dominated by the design and decisions of the politburo in Hanoi.

Vietnam's partner and confidante in this grand venture is Moscow and it is Moscow's considerable military and economic aid to Vietnam which subsidize Vietnam's occupation of Cambodia. Soviet economic aid to Phnom Penh is directed mainly towards infrastructural development — communications, roads, airports, and the port of Kompong Som — all of which assist Vietnam's occupation forces. The USSR's support for Vietnam is reciprocated by Soviet use of military bases and other facilities in Vietnam.

Resisting the Vietnamese occupation of Cambodia on the other side is the Coalition Government of Democratic Kampuchea (CGDK), a curious *ménage à trois* which hangs together, but just barely, retains a U.N. seat and, reportedly, controls some areas inside Cambodia, with the assistance of the ASEAN states, the People's Republic of China (PRC), the United States and some Western nations. Although all three groups were badly hobbled in the dry-season offensive early in 1985, the Khmer Rouge nonetheless continues to be the largest group with over 30,000 armed men, and its determined and experienced leadership makes it the only real effective armed force confronting the Vietnamese. The PRC is their sole patron and source of arms. The Chinese outlay, however, is not great. In any case, the Chinese do not tend to look for quick returns. They have been supporting the Burmese Communist Party for decades, with few tangible results.

The KPNLF (Khmer People's National Liberation Front) was formed in 1979 under the leadership of Son Sann, former prime minister in the government of Prince Norodom Sihanouk. The KPNLF claims to have up to 15,000 armed soldiers and responsibility for about 160,000 civilians. The KPNLF began as a fusion of several ragtag guerrilla groups led by small-time warlords each of which had evolved from smaller units fighting against the Khmer Rouge in late 1975 and early 1976. Son Sann's military aid comes from the PRC and the ASEAN states. China could well provide more aid to the KPNLF but is unwilling to do so because of its support for the Khmer Rouge. ASEAN, on its part, has only limited resources to offer to the KPNLF. The United States and other Western states are apparently prepared to provide only humanitarian aid. The KPNLF is given to frequent squabbling and dissension within its leadership. More recently, Son Sann and his generals have reportedly been preoccupied with eliminating opposition within the KPNLF with a great deal more vigour than resisting the Vietnamese occupation forces. The third component of the CGDK is the organization of Prince Norodom Sihanouk, the Armée Nationale Sihanoukiste (ANS), created in Pyongyang in 1979 and set up in Western Cambodia in 1981. Sihanouk offers a continuity of sorts with Cambodia's pre-revolutionary past, and is the smallest resistance group, claiming about 9,000-10,000 armed men and about 35,000 civilians. The ANS receives its arms from the PRC and certain ASEAN states and, as with the KPNLF, the Western nations have provided only humanitarian aid.

A number of immediately apparent realities should be mentioned. Neither the CGDK nor the KPRP can survive without external support. Vietnam for all intents and purposes shows no signs of removing itself from Cambodia in the immediate future. The Vietnamese Communists fought a long politico-military struggle to establish a Socialist state and to expect them to significantly modify the pursuit of their goal is futile. Calls for even a partial Vietnamese withdrawal from Kampuchea have not the slimmest chance of success so long as China is dedicated to supporting anti-Vietnamese Kampuchean forces, that is, the Khmer Rouge. And, finally, there is no external power around, prepared or willing to arm or train the non-communist resistance forces sufficiently to give them the opportunity to regain political power in Phnom Penh by force. The only power in any position to assist the non-communist resistance (NCR) continues to articulate the quaint and pious claim that it prefers to "follow the ASEAN lead" whatever that means. When in history, one might justifiably ask, did a great power ever follow the lead set by small states?

U.S. Policy

U.S. policy towards Cambodia is closely hinged on U.S. policy towards Vietnam. After 1975, in Alexander Woodside's phrase, "premeditated amnesia" became, in America, a comforting national disease, and an amnesia of sorts continues.¹⁰ The Vietnam war has had profound consequences for American foreign policy. With the exception of Munich, perhaps no other single event has done so much to

galvanize and shape American opinions about U.S. foreign policy and about the place of the United States in the world, the efficacy of military power, and the nature of social change in the Third World. America's élites, as Barbara Tuchman points out in a recent book, stumbled into the conflict out of cultural ignorance; out of misperception of the world rooted in "a sense of superiority so dense as to be impenetrable".¹¹ Once involved, they were driven on by a combination of pride and panic. Lyndon B. Johnson was not going to be the first American President to lose a war. In 1965, Dean Rusk was advising that withdrawal from Vietnam "would lead to our ruin and almost certainly to catastrophic war", whilst President Johnson foretold that Moscow and Beijing would "expand their control over the vacuum of power we would leave behind us . . . and so would begin World War III". "No one", as Tuchman observed drily, "is so sure of his premises as the man who knows too little". If there is any lesson they have learnt from that experience, it is that America should never again be drawn into direct involvement in a conflict in the Third World, and certainly not in Indochina.

In Cambodia, U.S. policy-makers prefer the more comfortable option, therefore, of hedging their bets. The thrust of U.S. policy towards the region finds its roots in the doctrine first articulated by President Nixon in Guam, in July 1970. A year later, Nixon stated that in cases of non-nuclear aggression, "we shall furnish military and economic assistance when requested in accordance with our treaty requirements. But we shall look to the nation directly threatened to assume the primary responsibility of providing the manpower for its defence".¹² In his subsequent report to the U.S. Congress in 1972, Nixon made it clear that:

In our relations with all countries we proceeded to give effect to our new policy of insisting that the United States has neither the prescriptions nor the resources for the solution of problems in which ours is not the prime national interest. It is coming to be widely understood that we are in earnest when we say that it is for others to formulate solutions to these problems, and that our contribution should be viewed as a supplement to the application of major resources from those primarily at interests.¹³

Secretary of Defence, Melvin R. Laird's report to the U.S. Congress in 1971 identified two types of conflict in the Third World.¹⁴ One, termed *theatre conflict*, would involve Soviet or Chinese attacks on Third World countries. Under the Nixon Doctrine, the United States will presumably remain willing to play a major role in deterring that type of conflict. The second form of Third World hostilities is termed *subtheatre conflict*, and the Nixon Doctrine identifies two variants of this type of conflict. The first involves attacks by countries such as North Korea and North Vietnam on U.S. allies such as South Korea, South Vietnam, Cambodia, Laos, and Thailand. In these instances, the Nixon Doctrine would favour the attacked country defending itself *without* the aid of U.S. combat forces, but *would not preclude* the involvement of American forces under special circumstances, though these were not clearly defined. The second consists of insurrections against

established governments. In such cases, the government involved would clearly be expected to deal with the insurgency on its own, with only material help from the United States.

The Nixon Doctrine, in short, dictates that regional states should undertake their own self-defence and that the role of the United States would be to provide its friends only with economic and military aid. Thus, whilst the current U.S. Administration appears amenable to providing military aid to its allies — for example, Thailand and the Philippines, countries with which it has a security arrangement — it is not ready to give similar aid to the non-communist resistance groups in Cambodia. The U.S. aid to the NCR to date has been made up largely of “non-lethal” aid totalling about US\$15 million a year in humanitarian assistance for refugees living on the Thai-Cambodian border, dispensed through U.N. border relief agencies.¹⁵ However, recent press reports have indicated that some covert military aid may have been given to the NCR.¹⁶ The Reagan Administration quite obviously believes that the U.S. public is unprepared for more direct involvement in a war in Southeast Asia and especially one involving Vietnam, and that such a war would not be supported by the U.S. Congress. The Administration also fears that a more direct military conflict with Vietnam could place obstacles in the way of any U.S.-Vietnam co-operation on the MIA/POW (Missing-in-Action/Prisoners of War) issue, a subject close to the hearts of many Americans.

The U.S. Administration appears also to subscribe to the view that the ASEAN states are themselves divided on the best approach to resolving the Cambodian crisis. In any case, there is considerable debate in Washington about the actual potential and capabilities of the non-communist resistance groups, and U.S. policy is predicated on the assumption that the non-communists could never achieve military parity with the Khmer Rouge, even with massive aid, which would be “money down the drain”. Administration officials have argued that ASEAN and the PRC provide enough arms and they fear that U.S. military aid would transform the conflict from one of ASEAN versus Vietnam to that of U.S. versus Vietnam. Some U.S. officials have argued also that any overt U.S. aid to the resistance could torpedo ASEAN’s chances for a negotiated settlement with Hanoi.

Ironically, on 18 March 1985 the U.S. House of Representatives Foreign Affairs Asia-Pacific Subcommittee passed a foreign aid authorization measure that included, at the initiative of Congressman Stephen Solarz (D-NY), an allocation of US\$5 million in additional economic support funds to Thailand to provide “appropriate assistance” to the KPNLF and ANS. The measure stipulated that the KPNLF and ANS should accelerate their guerrilla strategy, that no U.S. aid should go to the Khmer Rouge, that U.S. aid does not replace other sources, and that no U.S. personnel be involved.¹⁷ It was passed by the full House Foreign Affairs Committee on 3 April 1985. During the debate on the Bill before the full House in July 1985, Solarz also tabled an amendment which gave the Administration the flexibility to determine whether and when the NCR needs military aid.

In the wake of these developments, the U.S. State Department has over the past year taken a higher profile on the Cambodian issue. After the Solarz vote, the

State Department issued a statement "welcoming the enabling legislation allowing the U.S. to provide economic and military aid to the NCR". Whilst not representing any significant shift in policy, it would appear that the U.S. Administration is concerned to show, if nothing else, more public support for its non-communist friends in Southeast Asia. Thus, in a major speech in February 1985, Secretary of State George Shultz highlighted the plight of Cambodia's "freedom fighters". Under-Secretary of State for Political Affairs, Michael Armacost, likewise identified the failure to redress the imbalance within the Cambodian resistance as one of the future challenges to U.S. Asian policy. In July 1985, while *en route* to the Eighteenth ASEAN Ministers' Meeting/Post Ministerial Conference in Kuala Lumpur, Secretary Shultz transitted Thailand, where he visited Cambodian refugee camps at the border and had meetings with non-communist resistance leaders.

However, notwithstanding the higher profile, U.S. policy continues to be cautious and predicated on the view that the Cambodian problem is a regional problem. The U.S. position would appear to amount to little more than a rationalization of a desire not to get too closely involved in the Cambodian imbroglio and perhaps of a need to defer to Chinese priorities. The higher profile adopted in recent months amounts to little more than a low-risk gesture by the United States to assuage its ASEAN allies in the light of its oft-repeated claims about its obligations to help freedom fighters resist foreign occupation, particularly in Afghanistan.

In any case, the interests of the United States and the PRC are now being well served in Southeast Asia even when these interests are in conflict with those of the countries of the region. Continuing instability in Indochina and a continuous economic haemorrhage for Vietnam meet U.S. and PRC demands that Vietnam be punished, perhaps indefinitely. "Let them stew in their Soviet juice" as one U.S. State Department official put it.¹⁸ As with Afghanistan, Vietnam also represents another drain on Soviet energies and resources.

Should the United States care at all about what is happening to Cambodia today? There are a number of reasons but perhaps the only major one for the U.S. obligations to Cambodia is that the United States had abandoned that nation in the first place in 1975. In 1970, it had intervened to support the Lon Nol government, but exhausted by a decade of war in Indochina, the U.S. Congress cut back military aid to the Cambodian Government just as the Chinese were increasing their aid to the Khmer Rouge insurgents. The cut in U.S. aid made the Khmer Rouge's victory inevitable. Although by 1976, everyone knew that the Khmer Rouge had wrought a terrible bloodbath inside Cambodia, the United States, together with the rest of the world, sat back and did nothing.

The United States has two clear policy options if it is to effect any movement towards a resolution of the conflict in Cambodia. It can provide *effective* military assistance to the non-communist resistance of Prince Sihanouk and Son Sann to enable them to regain some measure of political power in Phnom Penh. Aid to the non-communist resistance need not in any way lead to direct American involve-

ment in Cambodia as this policy option does not call for the involvement of U.S. troops. Alternatively, the United States should seek to provide Vietnam with an alternative to its alliance with the USSR. This policy option would call for the United States to re-establish diplomatic relations with Vietnam and Kampuchea in order to reduce Vietnam's inordinate dependence on the USSR.

There is reason to believe that there has been some movement in Vietnam's diplomatic posture in 1985. For the first time, Vietnam announced a date for the complete withdrawal of Vietnamese troops from Cambodia, that is, by 1990. However, this claim was negated by a carefully worded qualification that the troop withdrawal would be reversed if the stability of the Heng Samrin regime was threatened. Nevertheless, Vietnam's concern to lift itself from its isolation was obvious in 1985. Vietnam appeared to be considerably rattled by the growing Sino-Soviet dialogue and by China's growing economic strength, trade and other relations with all the major powers in contrast to its own. A shift was clearly to be discerned also in Vietnam's efforts to entice greater U.S. interest in Indochina — for example, the visit of the U.S. team in November 1985 to explore an aircraft crash site in search of the bodies of missing U.S. servicemen.

It is a supreme irony that the very country which had sought at enormous cost to prevent the emergence of a new pattern of power in Indochina now finds itself playing little more than a marginal role in the region. So long as this state of affairs prevails, the stalemate and the suffering will continue indefinitely. The ASEAN governments on their own will probably continue to behave as if they have considerable power to affect events. And so long as America chooses to hedge and fudge its bets, it is unlikely that anyone else will be in a position to restore the *status quo ante bellum*.

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Vietnamese Communist Policy Towards the Overseas Chinese, 1960-75*

LEWIS M. STERN

Introduction

During the years from 1960 to 1975, the Vietnamese communists undertook to weld minority groups in northern Vietnam more closely to the mainstream of the Democratic Republic of Vietnam (DRV), and to gain the co-operation, or at least the passive sympathy, of the southern sectarian, ethnic and religious minorities for the "anti-imperialist" struggle against the United States and the Government of the Republic of Vietnam. With the expansion of the war in the south, the communists strengthened their commitment to building the north into the "great rear area", and focused on more deliberate efforts to create alliances with minorities that would facilitate victory in the war and prove indispensable to the north during the ongoing consolidation of the regime and in the anticipated period of reconstruction.

The Overseas Chinese, however, were peripheral to the communists' major organizing efforts among ethnic minorities. Communist policies toward the Overseas Chinese (Hoa Kieu or Hoa) placed a primacy on breaking Hoa Kieu economic power and remoulding Chinese social and community organizations and institutions. This article will review the communists' views of and policies toward the Overseas Chinese from 1960 to the eve of the communist victory in southern Vietnam.

Vietnamese Communist Views of the Overseas Chinese

Throughout the 1960s and early 1970s, the Vietnamese communists conceived of the Overseas Chinese in Vietnam as an interim category, a group that would disappear into the larger fabric of socialist society as economic and political transformation proceeded. Viewpoints that stressed the "special characteristics" of the Overseas Chinese were, from that perspective, based on "reactionary idealistic nationalism".

The process of absorption or assimilation was thought of in dialectical terms. The category of Overseas Chinese was not "permanent", and would expire as a matter of "historic law", since the Overseas Chinese were part of a process of

* The views expressed in this paper are those of the author and do not necessarily reflect the position of the United States Government.

history that was itself governed by dialectics. The laws of change and the process of "formation, development and eventual extinction" would accelerate the transformation of the Overseas Chinese into "a new nationality or a natural amalgamation". This dialectic would make the Chinese become productive citizens, thus dismantling the old society in which they were "reactionary defenders of tradition, wealth and independence" and obstacles to national unity, economic productivity and political stability.¹

To the Vietnamese communists, the Overseas Chinese were suspended in a twilight zone between two cultures. A 1971 *Bao Tan Viet Hoa* article describing the population of Hoa Kieu school-aged children in a Haiphong ward typified the manner in which the communists thought of the larger Overseas Chinese population. These children, the article stated, had been out of the educational mainstream for some time. Nearly half of them had attended only general schools, learning a modified curriculum that put them behind most ethnic Vietnamese their age. Approximately half of these students had very little knowledge of the Vietnamese language. Their "cultural levels" varied. Some remained under the influence of the "backward customs of old society", meaning that many lived in the traditional and tightly knit Chinese communities in Haiphong. These children "quarrel regularly and cause disunity". Some were allegedly involved in "illegitimate trading activities" as part of trading families.² Cultural differences lingered. Failure to learn the Vietnamese language was, on the part of certain sections of the Hoa population, a symbol of continued resistance to becoming part of Vietnamese society. For the rest, it was simply a habit of culture, not easily changed.

Economic activities pursued by the Overseas Chinese ranked them among the "non-producing people", according to the Vietnamese communists, who classified traders and open-air merchants as remnants of pre-revolutionary society. The Overseas Chinese, in this analysis, could not exist independently of Vietnamese society.³ Yet, the Hoa could not exist as part of the mainstream ethnic Vietnamese culture without substantial cultural and political compromises with their own traditions and organization. According to the communist view, in the wake of, firstly, the increasingly close relationship in social life between the Overseas Chinese and ethnic Vietnamese, secondly, the "joint liberation" of Overseas Chinese and ethnic Vietnamese, and thirdly, the "implementation of a policy of equality", there would be the "inevitable acceleration of transformation to become a new nationality or natural amalgamation".⁴

During this period, the Vietnamese communists were more confidently assertive about the socio-cultural malleability of the Hoa, and the ultimate dependence of the Overseas Chinese on the mainstream ethnic Vietnamese society. One author, writing in *Bao Tan Viet Hoa*, noted in early 1970 that the Overseas Chinese in Vietnam "never had any independent national social life and social system."⁵ The communists were realistic about the limited extent to which the Party could impose transformation on the Overseas Chinese, yet adamant about the basic requirements of loyalty and earnest work. The models of the new socialist Overseas Chinese citizens that emerged about 1968 reflected this. The measures of the

revolutionary quality implicit in these models that were applied to the Hoa were, in fact, quite different from those applied to the ethnic Vietnamese. These differences suggest the kinds of changes the Vietnamese communists hoped the Hoa would be able to implement.

These models indicate that political action for the Overseas Chinese meant performing well in mass movements, introducing labour-saving innovations, and increasing productivity. The war role of the Overseas Chinese was circumscribed to logistical and support activities, and participation in air defence work and militia-organized civil defence activities. Chinese residents who were elected "advanced workers" were celebrated as models to be emulated, though less for political reasons than for their accomplishments in social and economic management areas. The Hoa Kieu who attained positions as workshop chairmen and vice-chairmen, administrators in offices, school principals and vice-principals, labour union secretaries, and production team and co-operative chiefs, were honoured as able participants in "economic and social management work".⁶

The Vietnamese communists proposed several kinds of models for the Overseas Chinese, suggesting the qualities they thought would be possible to elicit from the Chinese.⁷ The great number of Chinese models were (1) model workers, the conscientious representatives, leaders and cadres of the new society who remembered the difficult and humiliating life of the past, and who worked hard for the new society as organizers and educators; (2) labour heroes, who remembered the bitter past and dedicated themselves to advancing production; and (3) vanguard workers, who were participants in mass movements and contributors to labour innovation drives and work improvement campaigns.⁸ These Overseas Chinese model workers and labour heroes reflected an established division of labour within the socialist society. Most of the Chinese singled out for these honours worked in factories, in the fields of communications and transportation, and in the service sectors. These models did not have great mobility outside these confines. Political participation for the Overseas Chinese was redefined to circumscribe Hoa activism; participation for the Overseas Chinese became the routine performance of assigned tasks. Promises extended to the Hoa through such model workers were qualitatively different from the enticements offered to the ethnic majority population. The Vietnamese, who throughout their lives stressed loyalty, "creative labour," and hard work, in imitation of key worker models, could achieve firm positions in the new society. The Chinese were never made such a promise. For the ethnic Vietnamese, utility of labour determined how good a citizen was; for the Hoa Kieu, labour performance determined whether one was a citizen or not.

The entire exercise of celebrating models and heroes, in the case of the Overseas Chinese, was to enshrine a pattern of work that over time engrained in the Hoa habits of co-operative labour, socialist productivity, sacrifice and activism that had to be taught to the traditionally competitive and independent Hoa. Examples of overtime work, frugality and collective industry were tirelessly repeated. These seemed to have been pedestrian admonitions when compared to the patriotic

examples of national heroes adduced for the ethnic Vietnamese, suggesting that the communists had limited expectations regarding the capacity of the Hoa to accept the allotted role in the "new society", and that they viewed the process of transforming the Hoa as involving the unequivocal discarding of distinctive Chinese social practices and character. Essentially, to the communists, advanced labourers were those Hoa who had transformed themselves into "true proletarians". True proletarians were those who had shed the Chinese practices of organization and economics for the socialist role as "producers".⁹

Overseas Chinese Education

During 1961-75, the Vietnamese communists placed a priority on reconstructing Overseas Chinese teaching traditions to conform with the schooling practices that the Party had put in place. The communists emphasized the integration of Vietnamese language training into that Chinese tradition during that period.

Between 1968 and 1970, there was a systematic purge aimed at Overseas Chinese teachers who dissented from the Party's reforms which (1) urged a closer relationship between education (theory) and production (practice); and (2) shortened the length of courses to advance the age at which youths would join the labour force. The reform of "teaching content" continued during those years. The movement to combine education with productive labour also proceeded, and land was utilized in the areas to which Overseas Chinese had been relocated to "provide the students an education in agricultural production". In 1970, the schools were moved back to the cities. "Reforms" undertaken at that time included (1) the shortening of the Overseas Chinese elementary school programme from six to five years; (2) further limiting of the role of the Chinese family and the responsibility of the traditional Chinese teachers in the Overseas Chinese community in planning and administering schooling for Chinese youths; (3) co-ordinating the Overseas Chinese schooling more closely with the Vietnamese educational system; and (4) placing a greater emphasis on teaching the Vietnamese language to Hoa students. The goal of those reforms was the transformation of Overseas Chinese educational traditions and establishments into an "inseparable part" of the Vietnamese education system. According to the Party, what the Chinese residents learned in school had to "be able to meet the demands of Vietnamese society". The shortened Chinese-language school programme during the early 1970s co-ordinated graduation with the completion of the Vietnamese course of studies, and ensured that Chinese youths could join the ranks of eager and dedicated revolutionary job-hunters somewhat earlier than previously, and receive work assignments alongside Vietnamese youths.¹⁰

Removing educational and supervisory responsibilities from the hands of traditional teachers further strengthened the control of the Party over the Chinese-language schools. Additionally, the customary role of the Chinese family as the locus of educational authority was undermined, compromising a major obstacle to the task of integration. Efforts were made to overcome the reluctance of families

to enrol their children in schools. Furthermore, parents were castigated for failing to respect the "home-study time" of students, interfering with schoolwork by requiring students to perform "unnecessary chores", and interrupting the student's concentration by scolding the children and demanding obedience. Co-ordinating the Chinese-language school system with the Vietnamese education system, and maximizing opportunities for Overseas Chinese students to enter grades and complete requirements alongside ethnic Vietnamese in their age group, was part of the process of incorporating the Chinese schools into the overall educational system. This was motivated by the notion that anything which stressed the "special characteristics" of the Hoa, including a separate and ostensibly equal schooling system, tended to institutionalize the separation from Vietnamese economic, social and political life, fostering "reactionary idealistic nationalism".¹¹

The question of the language of instruction was perhaps the most sensitive educational issue. The Chinese language continued to serve as the language of instruction at least in certain courses of study from the mid-1950s to the early 1970s. During 1969-70, a textbook reform campaign was organized which, among other things, involved a reassessment of the importance of Vietnamese as the language of instruction in Chinese schools. Many textbooks were rewritten under Party supervision to "overcome the long-standing separation from the reality of Vietnam's revolution and the reality of the Overseas Chinese in Vietnam". At the core of the textbook revisions was a language-teaching reform programme involving (1) greater investments in teaching the Vietnamese language to Chinese students, to achieve a fluency and proficiency that would have an on-the-job usefulness, (2) increased attention devoted to teaching the Chinese language properly and rapidly, integrating the study of Vietnamese and Chinese literature with the usage of Chinese, (3) more systematic assessment of teaching methods and the quality of instructors' performances in the Chinese schools, and (4) closer control of course structure and curricula design by approved teaching personnel.¹²

Thus, the language teaching reform, the restructuring of grades and curricula, the closer association of education with productive activity during 1968-70, and the teacher-training and quality-control experiments of the 1970-71 period resulted in (1) the loosening of the influence of traditional community and family decision-making centres on matters of education; (2) the consolidation of Party control over curricula content and teacher selection; (3) the formulation of measures of student performance and quality that revolved around conceptions of productivity and potential productivity, and the shifting of indicators of teaching success from intellectual achievement to practical achievement; and (4) the redefinition of education as a process geared to turning out capable and patriotic workers, and the de-emphasis on education as part of the cultural heritage of the Overseas Chinese.¹³

Economic Transformation and the Overseas Chinese

By the end of 1960, at least 90 per cent of all industry and commerce in the DRV

had been co-operativized, and three-quarters of all small traders and skilled workers had been organized into state-controlled co-operatives. The commercial enterprises that did continue to exist, including those owned or run by locally-born Chinese shopkeepers and artisans, were very closely monitored by the government and subjected to tight regulation. According to Vietnamese press reports, some Chinese had assumed managerial responsibilities in several factories, production teams, and collective farms. Chinese businessmen, small shopkeepers and handicraftsmen were, at least in some instances, relocated to co-operatives populated entirely by Chinese, such as the My Tho Cooperative in Nam Ha Province. Apparently, the campaign to reduce the number of businessmen and traders in the private sector of the economy continued through the end of the Three-Year Plan, and into the First Five-Year Plan (1961-65).¹⁴

Initiated in 1961, the First Five-Year Plan sought to "lay down socialist material and technical foundations, to advance socialist industrialization, giving priority to heavy industry, and to complete socialist reform". The plan set ambitious goals for the increase of industrial and handicraft production, aimed at expanding agricultural production by an average of 6.5 per cent per plan year, and targeted high growth rates in raw-material production for primary items such as coal, iron, and electricity. In 1963, in response to the increasingly critical problem of food shortages, the initial structure of the plan was abandoned. The Party shifted priorities to agriculture and light industry. In 1965, the Party placed a primacy on "stepping up the building of the material and technical foundations of socialism in a way suited to wartime conditions", focusing economic planning on the need to provide for the exigencies of war.¹⁵

During 1965-70, Chinese small businessmen and traders were systematically "shifted to production", that is, moved out of the cities into agricultural co-operatives in the countryside. This process involved recruiting Chinese for high-land development projects and establishing Sino-Vietnamese collective farms for the resettlement of the uprooted commercial class and their dependents.

The process of reorienting traders to production seems to have gone through several stages. Between 1965 and 1969, the campaign to shift the Chinese to production was a precaution against air raids. The Overseas Chinese were relocated in what was termed "anti-air raid evacuations" involving the transfer of small businessmen to agricultural production sites and the transfer of small factories and other moveable businesses to the countryside. The Party leadership at all levels was instructed to evacuate the Overseas Chinese to the rural areas. Schools were relocated, the Overseas Chinese population was "mobilized" and evacuated, and new Vietnamese farms were established to receive the "mobilized" businessmen and pedlars. All of this was said to have been accomplished according to a "preconceived plan".¹⁶

Between 1969 and 1970, the project of turning Chinese merchants into productive citizens and relocating families in the context of anti-air raid precautions seems to have been joined to labour and high-productivity campaigns, perhaps under the influence of Party First Secretary, Le Duan.¹⁷ The campaign to shift

traders to production was made a part of an effort to emphasize labour achievement, work efficiency, and improved management and economic organization. The Overseas Chinese relocation was thus integrated into a labour intensification campaign, called the Labour Production Race Movement, which stressed the strengthening of market control over "improper methods of profit-making", and the conversion of non-productive retailing and peddling to productive enterprise. The "concrete expression" of success for the Chinese was no longer simply the act of labouring in a productive and socialist mould. High productivity had been made the "yardstick for measuring . . . revolutionary quality". The Chinese were not only expected to rapidly become a part of the socialized world, but also to integrate into that world as highly productive components. The emergency aspect of the shift to production was no longer part of the project. The relocations changed from being emergency and tentative measures to being part of a grand policy designed to facilitate the integration of the several pieces of Vietnamese society into a socialist whole. Chinese merchants who accepted relocation were portrayed as "models" for the urban Chinese small businessmen and pedlars. The Overseas Chinese of the Tan Viet Hoa State Farm, for example, were said to have "abandoned their individual operation as urban small merchants . . . and walked into the agricultural front, not only making contributions to the anti-U.S. patriotic cause but also training themselves as honorable laborers". The project was portrayed in press reports as a multi-pronged effort to (1) reorientate pedlars to production work, (2) shift industrialists and commercial businessmen to production, and (3) encourage the participation of Chinese in self-defence, civil defence, rescue and fire-fighting and salvage units.¹⁸

Between 1970 and 1974, the campaign to shift traders to productive work was gradually amalgamated with the New Life Movement. The enforcement of Party policies and state laws and the maintenance of public security and order became the key goals. Essentially, it was decided that the business of eliminating wasteful and dated production practices could only be successful in co-ordination with efforts to promote public security and respect for Party leadership and reinvigorated ideological study. For the Chinese, this meant increased pressures to adopt the "proper degree" of "class consciousness" and collective spirit, and to conform to models of socialist behaviour. The continued existence of Hoa private businessmen indicated to the Vietnamese communists that the low level of consciousness and persistent "narrow nationalist ideology" had not been eliminated. Young Overseas Chinese were reportedly still unwilling as late as 1974 to participate in productive labour. Immediate economic reward remained a value for many who continued to follow an "individual go-it-alone economy". The communists said that superstitions were still prevalent in some Chinese communities, and the work of "maintaining security and order" was unenthusiastically pursued in some quarters. "Unreconstructed exploiting class elements", according to the communists, continued to teach the idea that the Overseas Chinese were "guests". Press reports stated that the faith of some Hoa was shaken by these efforts, prompting those Chinese to abandon their work places and responsibilities.¹⁹

The socialization of the Northern Hoa was, as late as mid-1974, a still unfinished business. In May of that year, as judgements concerning the failure of efforts to transform private businesses and remake the social structure of the Overseas Chinese communities was being forcefully articulated in public statements, editorials and Party-authorized newspaper articles, the Executive Committee of the Vietnam General Federation for Overseas Chinese (VGFOC) established a Production Group and a Cultural and Education Group, intended to assist the Standing Committee of the VGFOC in co-ordinating the departments responsible for the implementation of campaigns to restructure Overseas Chinese society. The widened context of the campaign to shift to production, and the creation of such *ad hoc* organizations to address problems related to this project, indicated that the Vietnamese communists exerted a steady though not thoroughly effective pressure on the Chinese community throughout 1974 to make them part of the revolutionized Vietnamese society.²⁰

Organization and Leadership of the Overseas Chinese

The Party-controlled Vietnamese Fatherland Front organization, the Vietnam General Federation for Overseas Chinese, developed a more complex administrative structure and established a stabilized chain of command during 1960-74, and claimed some success in organizing branches in various industrial establishments, schools, and communities in northern Vietnam. Beginning in the early 1960s, the General Federation accomplished its business through a complex chain of command in villages and work-places, with delegates in plants, co-operatives, communes, enterprises, schools, and residential areas. Within these basic organizations there were "advanced" organizers who did propaganda work and served as advisors in Chinese neighbourhoods. "Superior workers" in Hoa neighbourhoods and exemplary Overseas Chinese households participated in district Peace and Protection Committees. Work teams were designated to undertake the leading role in sensitive projects. For example, in mid-1969 work teams were established by teachers' organizations in Hanoi to provide instruction about the importance of Chairman Mao Zedong's Great Proletarian Cultural Revolution.²¹

A chain of command can be reconstructed in which the General Federation and the major municipal branches sat on top of a ladder descending through a number of local and work-place organizations, represented by model workers, advanced producers, co-operative representatives, Ho Chi Minh Youth Union members, and Vanguard Teenager unit members. This transmission belt through which propaganda was disseminated probably involved the many Chinese who served in administrative capacities in workshops, schools, labour unions and industrial establishments, as well as those who functioned as chairmen and vice-chairmen of street committees and street defence committees. The Chinese who had been "absorbed" into the Party, and who functioned as "responsible cadres", completed this network of Overseas Chinese activists responsible for organizing

ideological education and political study in trade unions and production units, among other things.²²

The Party's Central Committee dominated the VGFOC's political process. At the municipal level, Party committees were the central force in the politics of Hoa organizations. Municipal Party committees signed directives concerning issues relevant to the Hoa population, such as mobilization campaigns.²³ In the 1960s, for example, the Hanoi and Haiphong United Front Departments and the Municipal Federation of Trade Unions for those cities inaugurated training courses for Overseas Chinese cadres. Party education departments in Hanoi and Haiphong organized Overseas Chinese teachers for the task of educational reform. The 1968-69 decision to initiate an Overseas Chinese normal school course originated with the Haiphong Municipal Committee, which reorganized normal schools into "advanced collectives for Overseas Chinese middle schools", set the conditions for performance appraisal, and enlisted the Haiphong Overseas Chinese Federation to popularize those efforts. Block Party committees and administrative committees contributed to the founding of a ward-level Overseas Chinese Youth Cultural School in 1968 to assist Chinese children who did not qualify for general school admission. The "Three Together, Two Goods" emulation movement, intended to encourage work attendance and productive efficiency, involved factories, industrial concerns, schools, co-operatives and street and ward organizations. At the municipal level, the chain of command began with the Party Committee, which presided over the efforts of the municipal administrative committee, the Fatherland Front Committee, the labour federation, the women's association and the local education department. Essentially, then, such municipal-level committees and organizations were frequently involved in policy decisions pertaining to the Overseas Chinese in a process the Vietnamese communists described as a power-sharing arrangement whereby these instruments gave their "wise leadership" and the Overseas Chinese Federation a "helping hand."²⁴

The VGFOC Standing Committee leadership remained a stable quantity throughout the 1960s and 1970s. Tran Quang Dinh (Chen Quangding) served as Vice-Chairman of the Federation's Standing Committee from at least 1957 until the mid-1970s. Teng Huan-pen, who was a member of the Executive Committee of the VGFOC in the late 1950s, was mentioned as a member of the Standing Committee between 1971 and 1973, though he may have served in that position beyond those years. Chuang Yung was mentioned in the Vietnamese communist press in 1962 as a Standing Committee member. In 1968 he became Acting Chairman of the VGFOC. Several of these officials served concurrently within either the Hanoi or the Haiphong branches of the VGFOC. I Feng, a Standing Committee member of the national organization in the early 1970s, was Vice-Chairman of the Haiphong Federation between at least 1969 and 1975. Chi Yuan, a vice-chairman of the VGFOC in the early 1970s, was Vice-Chairman of the Hanoi Overseas Chinese Federation. The Vice-Chairman of the VGFOC, Tran Quang Dinh, was also a vice-chairman of the Organization Committee of the Haiphong Chinese Federation in 1957. Mai Dinh Cuong (Mei Dingkang) was identified as Chairman of the Hanoi

Federation in 1969, and mentioned in early 1970 press reports as a vice-chairman of the General Federation. Cuong was a celebrated labour hero in the late 1960s.

Ngo Lien (Wu Lian), Chairman of the VGFOC from 1957, ceased being mentioned in that position in Vietnamese communist press reports and radio broadcasts in 1966. Tran Dung assumed the position of "Acting Chairman" some time in 1966. In his 1976 Liberation Press Agency biography, Lien was said to have served as Chairman of the Chinese Residents' Liaison Commission in southern Vietnam between 1965 and 1976. He reportedly attended the June 1969 Congress of South Vietnamese People's Delegates as a representative of that organization. According to one argument, Lien, in "temporary eclipse", must have assumed some responsibility for a number of "errors in line" between the early and mid-1960s, possibly on the issues of the treatment of Chinese merchants — the link between the Hoa Kieu and the People's Republic of China (PRC) — and the question of educational reform of Overseas Chinese schools. However, Lien seems to have been one of the survivors of this Overseas Chinese leadership, and he outlasted the majority of his colleagues right through the post-liberation period. He was a recipient of the Insignia of the Iron Fortress of the Fatherland, and the First-Class Resistance Order, awarded for outstanding achievement in the war of resistance against the French.²⁵

The Overseas Chinese General Federation leadership remained a slim and essentially undistinguished élite, firmly wedded to and dependent on the Party. Throughout the mid-1970s, the VGFOC leadership was not able to develop a second generation of leadership, though the Federation was able to build a small class of local representatives and community leaders with limited responsibilities and considerably circumscribed mobility.

The Vietnamese Communists and the Organization and Politicization of the Southern Hoa

Though Vietnamese communist policy towards ethnic and religious minority groups in the south was an integral part of the revolutionary movement's strategy, the communists never fully developed and exploited contacts within the southern Hoa population. Undoubtedly, there was an effort aimed at recruiting and organizing the Overseas Chinese. The Central Office for South Vietnam (Trung Uong Cuc Mien Nam, COSVN), the focal point of command for communist activities in the south, did establish a Chinese Proselytizing Section. The National Liberation Front (NLF) organized the Vietnamese of Chinese Origin Association (Hoi Nguoi Viet Goc Hoa) in the 1960s, and in 1964 launched a movement urging the southern Chinese to join in the revolution. A Provisional Committee of Chinese Students was set up in Saigon, Cholon and other cities at about the same time. The Saigon organization focused on the issue of labour disputes. Michael Conley identified a Chinese Unity Warfare Front as a special interest group that functioned under the control of the People's Revolutionary Party, the Hanoi-

controlled Party providing the structure for the southern indigenous liberation movement. The organizations apparently had small memberships and engaged in limited activities.²⁶

In the NLF and COSVN programmes, directives and internal documents that discussed agitation and propaganda work among the minority groups, the Vietnamese communists articulated a minimal commitment to freeing the Chinese from the "racist" policies of the Government of the Republic of Vietnam, abolishing discriminatory laws, and allowing the preservation of cultural practices and languages. The December 1960 programme of the NLF called for the implementation of the right to autonomy of the national minorities and guaranteed equality between the various nationalities. Under the proposed "liberal and democratic regime", each nationality was to be entitled to the right "to use and develop its language and writing system, to maintain or modify freely its mores and customs . . .". The NLF was committed to abolishing the policy of "racial discrimination and forced assimilation" instituted by the President of the Republic of Vietnam, Ngo Dinh Diem. COSVN's Fourth Resolution, dated March 1966, swore to realize "Chinese and Vietnamese solidarity". A Vietnamese communist directive of 1966 also mentioned the importance of the Montagnards in the context of relating the aims of communist policy towards the minorities.²⁷

Vietnamese communist policy towards the Overseas Chinese is not identified in the explication of the NLF orientation towards ethnic minorities contained in this directive. Autonomous regional governments, improvement of living conditions, sexual equality, and mutual self-help and inter-tribal co-operation are described as components of this NLF policy; fairly clear references to Vietnamese communist commitments regarding the organization and politicization of the Montagnard groups are also contained in this document. The Second NLF Programme of August 1967 committed the movement to "resolute opposition" to "all policies of the United States imperialists and their henchmen aimed at sowing dissension between the Vietnamese people and Chinese residents in south Vietnam, exploiting, repressing and assimilating Chinese residents". COSVN's July 1969 Ninth Resolution made no mention of the Overseas Chinese. The Action Programme of the People's Revolutionary Government pledged, in terms quite similar to the First NLF Programme, to implement a policy of solidarity and equality among nationalities, and to protect the interests of foreign nationals residing in Vietnam. Thus, the Vietnamese communists addressed the question of the southern Hoa in perfunctory terms at best, never quite articulating a developed method of co-opting and recruiting the Hoa.²⁸

The communists refrained from considering relations with the Overseas Chinese in the context of their programmes and plans concerning the Montagnards, for example. Douglas Pike, who writes that the NLF virtually ignored the Hoa in southern Vietnam, seems to think that this was an incongruous twist to the well-organized movement created by the communists in the south. In his analysis, the NLF did little organization-building during 1960-74 among the Buddhists and Catholics, the various sects and the hill tribesmen, who were formed

selectively into *ad hoc* organizations rather than mass-based structures, and even less organization-building among the Chinese.²⁹

Other analysts have attempted to explain this policy by arguing that the Vietnamese communists were satisfied with low-level contributions by the Chinese merchants of Cholon to the war effort in the form of tithes to the NLF or minor support services such as the transportation of arms. Still others note the Vietnamese communists' desires to refrain from any actions that could lead to or be construed as involvement in the Chinese Communist Party's policy towards the Overseas Chinese, articulated as a domestic political issue by Beijing. Although each of these arguments is plausible, they do not explain the motivation behind the Vietnamese communist policy towards the southern Hoa, and how the communists looked at the Overseas Chinese in the south.

Though the Vietnamese communists did not discuss their plans for the southern Hoa in the open press, an understanding of their basic orientation towards the Hoa can be assembled through examination of the infrequent references to the southern Chinese made in *Bao Tan Viet Hoa* in the context of messages to encourage the "heroic struggle" in the south, in celebrations of accomplishments and important anniversary dates of the southern revolutionary movement, and in reviews of military achievements and engagements. To begin with, the Party-controlled VGFOC newspaper pictured the southern Hoa not as a separate population but as a component of the population of Overseas Chinese in Vietnam. Distinctions were not drawn between the southern Hoa and the northern Hoa. Rather, the articles in *Bao Tan Viet Hoa* spoke of the Overseas Chinese in Vietnam using the same nomenclature.³⁰

In public statements throughout 1974, the Vietnamese communists described the southern Chinese as an organizable force. Newspaper articles in the late 1960s, for example, spoke of the great achievement made by the Chinese in South Vietnam, the co-operative spirit and unity behind the political support offered to the NLF by the southern Hoa, and the single-minded devotion to a common goal — victory and independence. The Vietnamese communists recalled the long history of political activity and organizing work accomplished by the Overseas Chinese in the south, and acknowledged a legacy of militancy characterizing the southern Hoa's political activity. Newspaper articles recalled the co-operation between the Chinese in the south and ethnic Vietnamese in the organization of self-defence corps, which were credited with important contributions to labour actions in the mid-1940s, and repeated Ho Chi Minh's praise for the Chinese activities. These articles recounted the contributions of clandestine and overt Chinese organizations to the efforts of various national salvation organizations in southern Vietnam in the 1960s. Articles in the Party-controlled VGFOC newspaper spoke of the initial group of newspapers published by the southern Hoa, including *Tung Fang Bao*, *Chiao Feng*, and *Jie Fang Bao*. Vietnamese communist propaganda stated that after 1954, the Overseas Chinese in central Vietnam participated in the creation of Democratic Promotion Associations, developed close co-operation

between the Chinese and the Vietnamese, and organized against the so-called conservative forces operating to strengthen the Republic of Vietnam's influence over the Hoa. Thus, the Vietnamese communists took the position, in their propaganda, that the Chinese in the south had a long history of political activity on behalf of the revolutionary movement, and thus great potential as an organized force.³¹ These public statements concealed Hanoi's generally weak understanding of the structure and politics of the southern Overseas Chinese community, and underscored the extent to which the Party believed that the southern Hoa could be reorganized by the same methods applied in the North after 1954.

The communists seemed to have envisioned a policy towards the Hoa Kieu in the south that, in its broadest outlines, was not radically different from the manner in which the Hanoi regime sought to integrate the Chinese in the DRV into the revolutionary society.

In a late 1973 letter addressed to the southern Hoa population, the Hanoi Overseas Chinese Federation indicated that the Party was the single-most powerful force in northern society, responsible for entitling the northern population, including the Chinese, to political and economic rights. The Party, the letter suggested, would play the same powerful role in the south. The southern Chinese were told that they could expect to enjoy a fundamentally improved social position which would be based on "correct" policies of the Party and the government concerning the "work orientation" of the Overseas Chinese; that is, the Party would create the conditions for increased mobility for the southern Hoa through controlled and closely monitored education and training opportunities, and recruitment into the Liberation Army. Thus, a formalized system of "educational mainstreaming" would develop in which the southern Hoa would be schooled according to educational plans designed to minimize Chinese community input and ethnic association influence, and maximize socialization into well-defined, circumscribed economic positions. The letter stated that in Vietnamese society, the Overseas Chinese worked in many kinds of enterprises, factories, schools and co-operatives, played leadership roles in Party committees, factories, unions and schools, and served as delegates to the People's Congresses, as ward representatives and municipal jurors, seemingly indicating that these same levels of participation would be open to the Chinese in the south.

Accepting the premise that this document might have been intended as a sketch of the DRV's conception of the manner in which the Overseas Chinese should integrate into Vietnamese society, the letter seems to offer evidence that as early as 1973 the DRV envisioned the same process of development for the southern Hoa as it did for the northern Hoa: progress through (1) a period of intensified development of collective self-rule (remaking Chinese social order on a co-operative model); (2) a sustained effort to unite the Chinese with all Vietnamese people (using population relocation as a means of destroying economic monopolies); (3) the encouragement of devotion to productive labour; (4) intensified involvement in economic reconstruction (through a campaign to shift the Hoa to "productive activities"); and (5) involvement in efforts to build

socialism and strengthen the nation (that is, the institutionalization of a new division of labour).³²

Conclusion

In North Vietnam during the early 1960s, the period of the Second Five-Year Plan, and in the early 1970s, the communist regime continued the transformation of small private enterprises, the co-operativization of factories, and the dismantling of Chinese-dominated markets. Throughout the late 1960s and early 1970s, the Vietnamese communists orchestrated a thorough reform of northern Overseas Chinese education with the intention of synchronizing educational practices in the Hoa community and the mainstream educational system. In the First Five-Year Plan (1961–65), the Vietnamese Workers Party (VWP) established the groundwork for the policy of shifting small businessmen to agricultural production sites and small factories in the countryside, and accelerated the relocation of Hoa merchants to inland sites. The Party-dominated VGFOC developed a more complex subdistrict organization and a range of special *ad hoc* instruments to facilitate political projects and campaigns, and seems to have been established more firmly as the representative of the Overseas Chinese in labour unions, industrial establishments and schools, for example. The geographic reach of the General Federation remained circumscribed within Hanoi and Haiphong. The Vietnamese communists continued to celebrate the revolutionary spirit and commitment to national liberation of the southern Hoa, but apparently deferred making operational plans for the revolutionization of the Hoa who lived under the Government of the Republic of Vietnam.

NOTES AND REFERENCES

1. *Bao Tan Viet Hoa (BTVH)*, 20 November 1970, pp. 1–4; and 31 January 1970, pp. 2–3.
2. *BTVH*, 10 April 1971, p. 2.
3. *BTVH*, 2 July 1976, pp. 1, 4; and 1 March 1972, p. 2.
4. *BTVH*, 31 January 1970, pp. 2–3.
5. *BTVH*, 31 January 1970, pp. 2–3.
6. Hanoi *Vietnam News Agency (VNA)*, International Service in English, 1601 GMT, 12 August 1966; *BTVH*, 8 December 1968, p. 2; and 27 November 1968, p. 2.
7. *BTVH*, 26 November 1968; and 28 November 1968.
8. In addition to model workers, there seem to have been at least three categories of “heroic Overseas Chinese”: (1) brave soldiers, (2) ordinary people (*dan thuong*) who risked their lives to protect co-operative property, and (3) people who, in spite of adversity, stuck to their work-posts. See Hanoi *VNA*, International Service in English, 1601 GMT, 12 August 1966; and Chuang Yung, “Overseas Chinese in the DRV”, *Foreign Broadcast Information Service: Asia and the Pacific, Daily Report*, 29 September 1965, p. JJJ13. In *BTVH*, these terms are used in what appears to be an unsystematic manner, although descriptions of accomplishments and activities are consistent and adhere to the above categories or generic types of heroes.
9. *BTVH*, 16 March 1971.

10. *BT VH*, 18 September 1970; 21 September 1970; 18 August 1970; and 27 October 1970, p. 2.
11. *BT VH*, 15 November 1970, pp. 1, 4; 30 July 1969, p. 2; 20 November 1970, pp. 1, 4; 10 February 1970, p. 2; and 2 September 1970, p. 2.
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14. "Hsu Hsieh Ming Speaks at Overseas Chinese Meeting", *Joint Publications Research Service (JPRS) Vietnam Report*, no. 47173, pp. 36-39.
15. Nguyen Duy Trinh, "North Vietnam's First Five-Year Plan (1961-65): Report to the Sixth Session of the Second National Congress", *JPRS Vietnam Report*, no. 19952 (28 June 1963).
16. *BT VH*, 7 November 1969, p. 2; and 26 November 1968.
17. *Who's Who in North Vietnam* (United States Government Reference Aid, November 1972), p. 84.
18. *BT VH*, 14 February 1970; 10 May 1970; 26 November 1968; 4 May 1969, pp. 2, 4; and 21 May 1970.
19. *BT VH*, 10 August 1974, pp. 2, 4; 3 February 1972, pp. 1, 4; 11 September 1970, p. 2; 6 March 1971, p. 3; and 16 March 1971, p. 3.
20. *BT VH*, 14 May 1974, p. 1.
21. *BT VH*, 6 November 1968, p. 1; 1 January 1969, p. 2; and 8 April 1969.
22. *BT VH*, 21 May 1970; 4 May 1969, p. 2; and 14 April 1968, p. 2.
23. In all probability, departments comparable to what are today called Front Departments, the Propaganda and Training Department, and the Organization Department, were involved in this process. See Central Intelligence Agency, "Municipalities Subordinate to the Central Government: Hanoi", *Directory of Officials of the Socialist Republic of Vietnam: A Reference Aid* (December 1980), p. 13.
24. *BT VH*, 12 January 1969, p. 2; 20 January 1971, p. 2; 10 May 1970, pp. 1, 4; and 17 June 1972, p. 2.
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31. *BT VH*, 14 May 1969, pp. 1, 4; 5 March 1971, p. 2; 18 November 1973, p. 1; 2 September 1970, p. 2; 3 and 4 February 1970, pp. 2, 4; and 31 January 1970, pp. 2-3.
32. *BT VH*, 18 November 1973, p. 1.

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Vietnamese Agriculture: Rhetoric and Reality*

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It is a measure of ignorance that this paper should begin with a caveat. The fragmentary and sometimes contradictory nature of reports emanating from Vietnam makes the commentator's task a difficult one. The problem is not really one of an absolute dearth of information, since various Western organizations, notably the Joint Publications Research Service in the United States, continue to supply reports, but a problem of the absence of comprehensive statistics, of any overview, or even of basic definitions. The sketch now to be presented may be more caricature than portrait, but even caricature contains truth.

In selecting two major themes for consideration, the authors hope to use these as bases upon which to build discussion of other related matters. The question of limits to agricultural growth leads to some analysis of land rehabilitation and development as well as to analysis of intensification. Extension of the cultivated area is also part, albeit a minor one, of the transformation to large-scale, centralized production. At the core of this transformation is change in production relationships and while these have changed, they have done so in the direction of greater individualism, thus effectively reversing the thrust to large-scale production (except in respect of state farms).

Limits to Agricultural Growth

Just why Pham Van Dong and other leaders should describe limits to agricultural growth as a "burning" question is not at all clear, unless this is raised as an implicit warning to the people not to expect too much. The area under cultivation is spoken of as "... still very small, very inadequate compared with the population and with our needs in all fields"¹. This judgement, regardless of its general invalidity, could perhaps be more justifiably applied to the North, but it seems to have been confirmed for the whole country in Pham Van Dong's report to the Vietnamese Communist Party Congress in 1982.²

How valid then, is this judgement that Vietnam is short of developed agricultural land and what are the practical consequences of this view? At one level, the notion of a shortage of agricultural land is insupportable. Any such "shortage" can only be at given levels of technology and organization. (There must, of course, be an upper limit to productivity somewhere, but a Filipino example in which a system of continuous cropping of rice can produce 24-26 tons per hectare annually, compared with a national average yield of only 2.4 tons per

hectare, simply shows how far above present productivity any theoretical limit must be).

The judgement that at existing production and technical levels Vietnam suffers from a shortage of developed agricultural land appears to be confirmed by statistical data. Indeed, it is not just a case of the area under cultivation being "... very inadequate compared with the population ..." but of the areas under cultivation and, to a lesser extent, production itself failing to keep pace with population growth. In the case of groundnuts and soyabean, to take examples of basic vegetable oil-crops, in 1961, the combined production was about three kilograms per person from an average area of 0.25 ares per person. By 1982, the average production per person had crept up to 3.5 kg, after having slipped to just under 2.5 kg in the late 1970s, but now 0.36 ares were needed to grow this amount showing that yields per hectare had fallen. The case of the basic staple, rice, is even less promising.

TABLE 1
AREA AND PRODUCTION OF RICE IN VIETNAM, 1959 AND 1982

	Total area (mill. ha)	Production (mill. ton)	Yield (tons/ha)	Area per person (ha)	Production per person (kg)
1959	4.67	10.29	2.2	0.158	326
1982	5.70	13.78	2.4	0.101	245

SOURCES: United Nations Food and Agriculture Organization (U.N. FAO) *Production Yearbooks*. Data for 1959 are aggregated from separately reported figures for North and South Vietnam.

There has been a 22 per cent increase in the rice area, a more substantial increase in production by 34 per cent, and in yield by a mere 9 per cent (compared with almost a doubling in the Philippines, for example) but marked falls in both the area of rice-land per person and in the corresponding figure for production per person. In the former instance, the fall was by a third and in the latter by a quarter. Over the same period, the population grew by 93 per cent.

The response to this state of affairs, as far as the agricultural sector is concerned, has been twofold: to push forward the opening up of new land, and in the South, the rehabilitation of land abandoned during the civil war, and to intensify production on existing land both by strengthening the material base and by attempting to rationalize the organizational framework in which production takes place. In the population sphere, some progress has been made in controlling growth. From rates of about one per cent per year in the early 1950s, growth peaked at rates of between three and four per cent in the early 1960s, falling to between 2.5 and 2.8 per cent in the 1970s, and now about 2.2 per cent each year, at which level the population will double in about 32 years.³

Land Development

Land development, as a process, is always slow and may be significantly more expensive than upgrading existing areas, for agriculturally virgin areas lack significant population and basic infrastructure. Vietnam does not suffer from an absolute shortage of land even measured by existing levels of production. However, it does suffer from a maldistribution of land in two senses. Firstly, there are longstanding and sharp population gradients between the two major plains, those of the Red River in the North and the Mekong River in the South and between these (together with the many small but densely peopled plains of Central Vietnam) and the rest of the country; that is, between the rice-growing lowlands and the uplands where permanent rice cultivation is not feasible on any significant scale. As Jones⁴ has indicated, the Red River Plain contains about 33 per cent of the population but only comprises 11 per cent of the area of the nation. The Mekong Plain also covers about 11 per cent of the territory but has 25 per cent of the population.⁵ Land development, therefore, has as an aim the redress of this maldistribution.

The second type of maldistribution is between new land that can be developed for rice and that which is suitable for other crops, such as food crops like sweet potatoes and maize, and industrial crops. Though there are significant areas of former rice-land still being rehabilitated in the South, to all intents the rice frontier has long since been closed though minor additions to the total area will continue to be made as coastal accretion continues, aided by judicious embanking, and as topographically suitable areas in the southern highlands come into production. Sources are curiously silent on the question of land suitability. The official position seems to be that the potential is "very great".⁶ More than one-third of the total land area is said to be still "unused and left idle", including 3.58 million hectares (10.6 per cent) that "can be used for agriculture". The question, though, is for what sort of agriculture?

The total area cleared for agriculture between 1976 and 1980 is, on the face of it, quite impressive, though it is impossible, from the sources, to distinguish truly "new" land from that which has merely been rehabilitated. In round figures, at least 700,000 hectares have been cleared, representing just over one-tenth of the total cultivated area in 1980. But of this large area, about a quarter (140,000 hectares) has not been planted at all, while just over half (380,000 hectares) has been planted with grain (type unspecified), with the balance of 180,000 hectares having been planted with non-grain food-crops — probably mostly sweet potato, or industrial crops. Associated with these developments was the migration of 1.47 million people.⁷ Comprehensive data on the amounts of land cleared in each province are not available though Hill⁸ has collated the fragmentary data available for these New Economic Zones. Generally, the pattern is of large growth in the proportion of cultivated land, particularly in the southern plateau region, but this growth has been from small bases.

Land development has two objectives: one is to expand the food supply and

the other is to increase the production of basic industrial crops such as rubber to meet not only domestic demand but also for export to CMEA (Council for Mutual Economic Assistance) countries which are unable to produce tropical crops for themselves. Clearance to meet the first objective has met with significant problems. In the Mekong Delta, for example, state farms opened up just over 31,000 hectares of new land, but much was on alkaline soils and only 50-60 per cent could be planted; even then yields of rice were extraordinarily low at about 800 kilograms per hectare. Substantial areas of land have also been cleared for subsidiary crops, mainly sweet potatoes and maize. But of some such areas, Nguyen Xuan Nguyen, assemblyman from Dac Lac province, noted that while 45,000 hectares of dry fields had been cleared in the province since about 1977 (together with 10,000 hectares of new wet rice-land) "... each year there are tens of thousands [of hectares?] of deteriorated land that cannot be used [any longer] for food production and that have to be abandoned . . . we spent a good deal of time breaking up [sic] land in order to grow maize and corn and yet we had to throw them away after a while because we have no way to process and transport them in time elsewhere . . .".⁹ Just how much more "new" land is in like case there is no means of knowing.

As far as new lands developed for industrial crops are concerned, data are extremely fragmentary. In 1980, an area of 130,000 hectares had reportedly been delineated for coffee under an arrangement aimed at supplying the Soviet Union, Czechoslovakia, Bulgaria and the German Democratic Republic (GDR) — the countries which would also supply technical assistance. A later report indicated, however, initial failure "due to lack of care . . ." of the coffee plants.¹⁰ In Dong Nai province, 12,000 hectares of new rubber planting has been reported but this will only be coming into production in the next few years. In any case, this will be a drop in the ocean of need, for even with an estimated 46,000 hectares of rubber in 1981, Vietnam has far to go to reach the total of 98,000 hectares which was the production figure 40 years earlier.¹¹

Despite past difficulties, freely acknowledged by the Vietnamese government, large-scale land development is to be pushed ahead. The 1981-86 Five-Year Plan calls for the resettlement of between one and one and a half million workers and the opening up of 700,000 hectares of land. These are to comprise about 100 state farms, mostly specializing in rice and major industrial crops.¹² If the Plan target is met, this would mean a 10 per cent increase in the cultivated area over five years. To clear land is one thing. To marshal the resources for successful land development, where in the recent past "... the task of preparing the area . . . has not been done well, investment of capital in the transfer of population, capital construction, and service to production are not yet in balance, and communications and transportation have not yet met . . . requirements", is quite another. If past experience is any guide, reality is likely to fall somewhat short of rhetoric. Given that past experience, it is to be wondered that more is not made of intensification of production in the existing agricultural regions.

Intensification of Production

The measurement of changes in the intensity of production is a matter of some complexity and involves certain assumptions in reducing all the various crops to a single unit, such as "grain equivalents". For Vietnam, the problem is aggravated by the difficulty in establishing just what equivalents are employed in the data given. Here, two measures have been used, neither of which is wholly satisfactory. Output per hectare is often taken as a measure of increasing intensity, but increase in such outputs can arise from two sources: rise in the yield per hectare with no increase in crop frequency; rise in the frequency of crops per year without a rise in the yield per crop; or, both these together. (Equally, crop areas increase either because more land is taken into cultivation or because the same land is cropped more than once a year). The figures presented in Table 2 should be interpreted with these considerations in mind. Production per person is not a usual measure of agricultural intensity, but given the fact that in Vietnam and Thailand (for which data are added for comparison) 69 and 74 per cent of their work-forces, respectively, are in the agricultural sector, it at least gives an indication of whether production is keeping pace with population growth.¹³ (Data for Thailand are added for comparison because of broad similarities in size and environmental conditions, and not because of any similarity in demand and macro-level production structures).

TABLE 2
ESTIMATED PRODUCTION OF RICE, MAIZE, GROUNDNUTS AND SOYABEAN, PER
HECTARE AND PER PERSON, VIETNAM AND THAILAND
(Selected Years)

	Rice				Maize (kg)				Groundnuts & Soyabean (kg)			
	Tons per ha		Kg per person		Tons per ha		Per person		Per ha		Per person	
	Viet.	Thai.	Viet.	Thai.	Viet.	Thai.	Viet.	Thai.	Viet.	Thai.	Viet.	Thai.
1957	1.62	1.36	288	319	0.88	1.04	9.2	6.6	n.a.	1.73	n.a.	6.2
1962	2.02	1.42	296	328	1.11	2.10	9.2	25.3	1.05	1.26	3.2	5.0
1967	1.84	1.91	242	375	1.15	2.04	7.3	40.3	1.05	1.20	3.5	6.5
1972	2.18	1.92	257	355	1.15	1.94	6.6	51.5	1.08	1.10	3.3	6.2
1977	2.11	1.88	229	348	1.05	1.94	8.7	57.2	1.22	1.00	2.5	6.0
1982	2.42	1.86	245	356	1.29	2.00	8.6	61.0	0.93	1.00	3.3	5.1

SOURCES: Based on *FAO Production Yearbook* data, smoothed by three-year running means, except for 1982 which are unsmoothed.

While Vietnam has steadily improved its yields of rice per hectare, by just 50 per cent since 1957, it has failed to maintain production per person. For maize, the main subsidiary grain, yield per hectare has increased by 46 per cent. For the two basic vegetable-oil crops, groundnuts and soyabean, both countries show falling yields and falling production per person. What can be done, despite rapid population growth, is shown by the Philippines, where over the period 1957-82 the yield of rice and maize per hectare at least has doubled, while rice production per person

rose from an admittedly low figure of 148 kilograms in 1957 to 161 kilograms in 1982.

The Case of Rice. Vietnamese agriculture is overwhelmingly dominated by rice-growing. Of the 6.95 million hectares of agriculturally used land reported in a survey completed in 1980, 4.66 million hectares were used every year for rice-growing. In the Mekong Plain, wet rice-fields covered 2.33 million hectares, with another 92,000 hectares of annually cultivated "dry" fields. In the Red River Plain, wet fields covered only 639,000 hectares, with a further 92,000 hectares in "dry" fields. The balance of 1.6 million hectares of rice-lands lie outside these two great plains.¹⁴ For climatic reasons it can be assumed that only one rice crop can be obtained annually from the "dry" fields, but on the question of how many crops the wet fields produce yearly the sources are silent, and reports always seem to double-count. For example, internal evidence in a report on Hai Hung province makes it very clear that the area in wet fields was not some 282,000 hectares (the area of the rice crop) but actually less than half this figure.¹⁵ Where the same land is used twice or even three times yearly, the area is counted each time. This consideration makes it difficult to establish the degree to which land is being used more intensively.

What is clear is that winter cropping, particularly in the north where two rice-crops, the so-called "fifth-month" and "tenth-month" crops are widespread, has been steadily growing. In Hai Hung province, the area in winter crops, presumably sweet potatoes, "Irish" potatoes and maize as are usual elsewhere, occupied 42 per cent of the crop-land in 1979-80, an increase of 14 per cent from 1976-77.¹⁶ For the whole of North Vietnam, the area of winter crops reached 213,000 hectares in 1979 and this would seem to represent about a third of the wet-field land.¹⁷

Such developments have necessitated significant changes in agricultural practice. In order to obtain a winter crop at all, it is essential that the tenth-month rice crop is actually harvested at this time. This in turn requires the use of short-term, high-yielding rice varieties such as 75-6, 75-10, Can Tho 1 and Can Tho 2, which allow the extension of the winter planting season during which the successor crops will grow in the residual moisture of the wet fields. Equally important is the provision of fertilizer. Vietnam as a whole is critically short of artificial fertilizers, and substitutes such as duckweed composted into organic fertilizer are essential.¹⁸ Scheduling is thus critical; yet, particularly in the north and centre of the country, schedules are vulnerable to environmental problems. In Ha Son Binh province, for example, in 1980 the winter crops could scarcely be planted because the planting of the tenth-month rice crop had been delayed by flooding.¹⁹ It is also important to note that winter crop areas are those with high crop indices, above 2.0 already, and while plans call for increases to 2.2 or 2.4, further increases may not be feasible for lack of water and fertilizer.

Elsewhere, there have been major problems in pushing up the crop frequency from one to two crops yearly. In the upland areas of Ha Son Binh province, for example, it has not been possible to increase crop frequency on the 10,000

hectares of single-crop (tenth-month) rice land because of poor weather, shortages of materials, lack of draft power and, a "main cause" of this: "poor leadership and some wrong views".²⁰ In some of the central provinces, nature conspires against intensification, as in the Mekong Delta province of Cuu Long where during the wet season more than half of the rice area is waterlogged and drains with great difficulty. Yet, in the dry season, alumina and salt in the groundwater rise near the surface to hinder cropping. Thus, the fifth-month crop covers only 5,000-6,000 hectares, or a tenth of the area covered by the tenth-month crop, which itself suffers from flooding towards the end of the season.²¹ Substantial portions of the Mekong Plain have long been cropped only once a year. Here, there are also soil problems along the main distributaries of the river and in some "backswamp" areas. The former derive from the incursion of slightly salty water during periods of reduced flow while the latter are to be found on soils derived from recent marine sediments which become extremely acid on drying — the so-called acid sulphate soils. Some of these types of land have been recently put under rice cultivation but yields, in the region of 800 kilograms per hectare, have been very low.²² Nevertheless, there has also been significant progress. In Tien Giang province, for example, two-thirds of the rice-land is irrigated and double-cropped while "many" production collectives are reported as having planted soyabean as a cash-crop between the two rice crops.²³

Overall, progress in the intensification of production has been patchy. In the North, highly productive, "advanced" co-operatives still constitute less than a fifth of the total number of co-operatives and while there are some that produce 4-5 tons of rice per hectare per crop, the average is still only 2.1 tons per hectare.²⁴ The production gap between the very best and the average is still large and, at least in the South, may partly reflect differential access to basic inputs: fertilizer, insecticide, fuel, tractor spares, even planting material, which generally are in desperately short supply. Stealing has been reported as having gone on for many years in the Mekong Delta provinces. In Hau Giang, for example, the Supply Corporation "lost" 46 tons of fertilizer, 65 tons of cement, and 50,000 litres of engine oil while the Chau Thanh Agricultural Supply Station, having received 1,141 tons of urea, sold 533 tons to "familiar customers", but only 220 tons reached the farmers.²⁵ To be sure, such inputs would have had beneficial results even if they had been bought on the black market but such speculation may well tend to reinforce differences in production among the various units.

The Contract System and the Transformation to Large-Scale Socialist Production

The raising of agricultural production by means of a transformation to large-scale socialist production has long been an implicit, if not always an explicit objective of the Vietnamese Government. This involves larger organizational structures in the agricultural sector and also the application of large-scale mechanization — the latter, a consideration that has so signally failed that further discussion here is

unnecessary. Organizational policy has aimed at making the production unit the district. Pham Van Dong, for example, speaks of the fact that the district is an administrative unit and not one "for economics and production" as "irrational".²⁶ By mastering the "system of socialist collective ownership, the science of labour organization, economic management, water control, the use of fertilizer, seeds, new implements and so on", says Le Duan, "... can we take our individualistic backward agriculture forward to large scale socialist agriculture".²⁷ "The peasantry", he continues, "... has volunteered, together with the working class, to go forward to socialism and give up individual production ...".²⁸

So much for the rhetoric. How does this fit into the observed realities of the newly introduced system of individual and family production contracts which on the face of it are neither large-scale nor socialist forms of production? Here, the rhetoric takes another twist as is seen in the comments of Party theorist, Hong Giao, who says,

... a socialist agriculture is also founded on the establishment of a system of socialist ownership over land and other production materials. ... This feature reflects the centralized and planned character right from the start. ... If we fail to firmly grasp [*sic*] the need for centralized and planned development, we will fall into spontaneity and anarchy; however, if we bypass the transitional forms from low to high, we will only display hastiness and rigidity and end up with bureaucratism. Both of these tendencies will obstruct our efforts to advance agriculture toward large-scale socialist production.²⁹

The division of labour, the fragmentation of production, though not of ownership, which the production contract system unquestionably represents, is thus seen as the means to achieve large-scale socialist production which now, it seems, comes to refer more to organizational and distributional structures than to actual physical production on the ground.

The Product Contract System

There can be little doubt that during the war Vietnamese agriculture laboured under serious difficulties, not least because of, in the North, the almost total absence of male workers in the 18-40 age group. Even in 1980, it is claimed, the labour force was still strongly female, 80 per cent in the North, according to one, perhaps biased, report.³⁰ But difficulties were more basic than this, as official sources freely admit. The work-point system, widely adopted after 1965 when most co-operatives adopted the system of public ownership of all means of production and distribution of profit according to work done, had fundamental flaws for "... it had the disadvantage of being based upon the number of work-days irrespective of the quality of the work".³¹ A measure of "quality control" was subsequently introduced but this increased the cost of supervision and required the temporary employment of urban workers to meet peak labour demands. Indifference and irresponsibility were nevertheless widespread. Work was often botched:

plowing and harrowing was done roughly, manure was not properly spread, and weeding was incomplete. In some districts, worker productivity fell in 1975-77, compared with 1972-74. One example³² shows falls in production per worker by 18 per cent, though in that specific case how much is to be attributed to production problems and how much to a 7 per cent increase in the number of workers is impossible to say.

Since 1970, small co-operatives have merged into large ones and specialized teams for tilling, irrigation and other tasks have made their appearance along with the "three-point" contract system. This involved contracted produce, that is, each brigade was allotted an area of land and a quota of produce; contracted costs, based on the technical norms for each crop; and contracted work-points, based on labour norms for each job. But as Nguyen Yem has observed, "The system of 'three-point contract' . . . has a fundamental flaw since it is the production brigade and not the farmer who disposes of the crop. This leads to the peasants working carelessly. They only care for their work-points and not for the quality of their work. The result is that the production brigade has to control the work, which renders the managerial apparatus more cumbersome. Furthermore, this control is ineffective since in present conditions agricultural production cannot be standardized".³³

Production contracts direct with farmers derive from a practice which began in the North prior to 1978 whereby co-operatives put land at the disposal of individual farmers for growing vegetables and subsidiary food-crops (such as Irish potatoes, sweet potatoes) during the winter. This form of direct contract was first applied to rice cultivation in 1978, became applied extensively by 1980, and by the spring of 1982 was the norm. Basically, the new form of contract is simply an extension of the earlier "three-point contract system" with individual families. The co-operative continues to sign contracts with specialized teams dealing with specific technical tasks such as mechanized tilling, irrigation, seed selection, management, distribution of fertilizers, and pest control. With regard to the production brigades, after agreeing on the contract with the co-operatives, they sign contracts with each peasant team or individual peasants. These peasants do the final work (tending the crop and harvesting) as the jobs enable them to exercise their skills and make use of the material resources and labour of their family members. The area allotted to them under the contract is discussed with the production brigade. Care is taken to ensure that the area allocated and the labour supply are fairly matched and also that contract labour commitments do not result in diminished production from family plots, diminished income from petty trading and like activities subsumed within the "secondary family economy". Land contracted-out must be a single plot which may not later be delineated by bunds or ditches.³⁴ The contracted production quotas are also fixed at a meeting and kept constant for several years to gain the confidence of the peasants and to encourage them in their work by guaranteeing the "three benefits" — benefits to the state, to the collective, and to the individual. The peasant team or individual peasant now receives the entire sur-

plus produced over the fixed quota or is fined the entire deficit, except in the case of natural disasters or exceptional circumstances.³⁵

The complete final product is controlled through purchases by the state and strict regulations governing the delivery and collection of the product are to be observed.³⁶ With the new form of contract, the co-operative members can make the best use of their labour and land, fulfil the norms in a voluntary manner, apply technical innovations to their work, save production costs, improve the quality of their work, raise economic efficiency and spare control work for the co-operative. Contractual work has also expanded to various types of crops, livestock breeding, and other trades in co-operatives.³⁷ In addition to allowing individual initiative, the government is also giving co-operatives and their members more autonomy *vis-à-vis* the central government, especially in the selection of the form of contract between the co-operative and its members. This represents a swing towards decentralization and material incentives and away from ideological exhortation and devotion to the cause of collective production.

It is not yet possible to draw any satisfactory conclusion whether, overall, enhanced production has resulted from these reforms. In the rice sector, and in the short-run, the vagaries of the weather may result in improved production just as easily as organizational change may improve output. Nevertheless, fragmentary evidence points to promising gains. The 1982 grain harvest (16.3 million tons) was a record and the first time ever that the food production target had been exceeded. With an 8 per cent production increase over 1981, the government's share of the harvest rose by a million tons to reach 2.9 million tons, about 18 per cent of the total crop.³⁸ A Ministry of Agriculture survey in 1981 indicated that 3,581 co-operatives out of 4,335 in ten northern provinces had adopted contracting and that labour commitment had increased 20-30 per cent with lengthened hours of work — from 5-6 hours daily formerly to 8-9 hours. In one district in Nghe Tinh province, some 7,800 labourers, formerly passing themselves off as sick, "cheerfully" went to work after receiving contracts.³⁹ Individual co-operatives reported higher production figures, mostly in the 10-15 per cent range; one report also indicated a return of petty traders to the land around Haiphong and a substantial fall in the number of administrative cadres.⁴⁰

A sociological survey carried out in the Vinh Lac district of Vinh Phu province in mid-1980 showed that in answer to the question, "what were the advantages of the new system?", 77 per cent listed "working harder, more responsibly and enthusiastically" while 66 per cent listed "one is more master of one's own time". But only about a third listed "full utilization of manpower" and "higher productivity" as advantages.⁴¹ Yet, higher productivity seems generally to have been achieved even if it does not yet show up in international statistics. According to Hoang Tung, in mid-1982, 70 per cent of agricultural production quotas had been exceeded and only 10 per cent had ended in a deficit.⁴²

Despite such enthusiasms, problems remain and these have been summarized by Nguyen Duc Hau.⁴³ Firstly, planning, labour and production management

have been inadequate. Secondly, collectively owned implements, drying-yards, warehouses, pig-sties and other existing material and technical bases have been left idle and mechanisms to maintain such have not been created. Thirdly, contract output quotas at collective levels, especially the co-operative, have been set too low. Consequently, the proportion of production attributable to the individual rises the most, while that proportion attributable to the state rises somewhat, but that due to the co-operative falls. In other words, production is simply shuffled around.

The new practice of sub-contracting productive work to individuals certainly marks a departure from the previous orthodox trends towards egalitarianism and communalism. To the purists, the resort to material incentives and private enterprise amounts to taking the capitalist road. However, these reforms are more measures of expediency geared to solve the food crisis than a move to embrace capitalism outright. The present stage of development is considered a transitional period in which individual and co-operative ownership of the means of small-scale production can be allowed to co-exist with socialist ownership and planning of large-scale production. As the Vietnamese see it, the new form of contract does not weaken the socialist productive relationship because on the one hand, the public ownership of crop-land and the major instruments of production, such as machinery, water conservancy systems, shops, warehouses, and so forth, are maintained. On the other, the assignment of crop-land to co-operative members can change. And, contracted crop-land can be reclaimed at any time if a co-operative member violates the provisions of the contract. Furthermore, co-operative members use crop-land as part of a collective of labourers producing crops for society, for their co-operatives and for themselves to consume, and produce these crops in accordance with a unified plan. Finally, the ownership and distribution of products are based on the principles of socialist distribution. The largest portion of the products (the contract output) and the income are sent to the co-operatives and distributed as follows: a percentage is used to fulfil obligations (taxes and sales at directed prices to the state), a percentage is used to pay production costs, including depreciation on fixed assets, a percentage is deposited in funds (the accumulation funds, the public welfare fund, and the reserve fund of the co-operatives) and the largest percentage is returned to co-operative members on the basis of the number of man-days worked by them — that is, distributed in accordance with labour.⁴⁴ It is worth mentioning that precautions are being taken against the phenomenon of granting leases and collecting land rent on fields for which contracts have been accepted, and against the phenomenon of labour working for hire or a petty bourgeois business in which production is closely linked to the labour of businessmen in capitalistic style.⁴⁵

However, in contradiction to the wishes of the party purists, an upsurge in private trade has been reported following the reforms both in the North and in the South and some state factories have even bought raw materials from the free market and sold finished products back to it. In mid-1983, party officials said that some 70 per cent of all goods in circulation were controlled by the free, or non-

government, market, marking a significant decrease in the government's share of trading activities.⁴⁶ The government position appears to be one that favours control of the complete agricultural production process through purchases and regulations. By and large, small doses of capitalism seem to be accepted by Vietnam as a necessary remedy for its economic ills.

Conclusion

At many points in the agricultural sector, reality has fallen short of rhetoric. This is not something peculiar to Vietnam or to the region — witness the Philippines' faltering progress, to be charitable, in land reform, or Indonesia's relative lack of success in land development and population redistribution. Unquestionably, Vietnam's slow progress must be attributed in part to the exigencies of war, not only directly in physical damage or perennial shortages of inputs, including, for a period, labour, but indirectly in the seeming reluctance of administrators who are past masters at improvisation and crisis management to get down to the dull but necessary business of agricultural development. That reluctance stems in part from ideological considerations. Though information is scanty, it seems that at the highest levels in government there is a split between the pragmatists and the ideologues. By adopting the production contract system the government has now taken a new road.

The new road in agriculture is still socialist. It is perhaps significant that of three socialist countries to abandon the "command economy" path in favour of market socialism, Hungary, China and now, apparently, Vietnam, all were (or are) strongly agricultural, with rather weak industrial bases. The intriguing question is whether China has deliberately sought to follow the Hungarian model and, in turn, Vietnam the Chinese model. There is an irony here too, for Vietnam while following a variant of the Chinese responsibility system, is also beginning to emerge as a producer of tropical commodities — coffee, rubber, fruits, and vegetables — for CMEA countries in general and the USSR in particular. Yet, paradoxically, just as ties with the Soviets become more solid the Vietnamese quite precipitously abandon their version of that mainstay of Soviet economic organization, the detailed central plan, the command economy. Herein lies a paradox, a most ingenious paradox.

NOTES AND REFERENCES

* Much of the primary data for this study were gathered at the Hamilton Library, University of Hawaii at Manoa, whilst the senior author was a visiting professor at that institution. Dr Ronald Skeldon, Department of Geography and Geology, University of Hong Kong, kindly commented on an earlier version of this paper.

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Aspects of Soviet-Vietnamese Economic Relations, 1979-84

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Vietnam's foreign economic relations have, of necessity, been primarily conducted over the last six years with the few countries that make up the Council for Mutual Economic Assistance (CMEA or COMECON). Hanoi has been faced with several impediments to the establishment of wide-ranging economic ties with countries outside this Soviet-led economic bloc. Amongst these impediments, the Vietnamese invasion and occupation of Kampuchea has been the most significant in circumscribing Vietnam's foreign economic options. Together with the Kampuchean question, which resulted in the imposition of a Japanese and Western economic aid embargo on Vietnam in 1979, the Vietnamese tilt towards, and then embrace of, the Soviet Union, was the factor which had, earlier in 1978, led China to sever its economic ties with Vietnam. The formal conclusion of that nexus between the Soviet Union and Vietnam in November 1978, through a Treaty of Friendship and Co-operation, had in itself been a partial result of the Vietnam war: the refusal in 1977 by the United States to provide reconstruction/development aid to a war-ravaged Vietnamese nation. The issue of American troops listed as Missing-In-Action (MIA) during the Vietnam war, allied to Vietnamese actions in Kampuchea, provided further factors which combined to firmly shut the U.S. aid and trade door to Vietnam.

As a result of all these essentially geopolitical factors, Vietnam's international economic ties have largely been limited to the countries of the CMEA. Within that grouping, the Soviet Union has been for Vietnam by far the largest and most important trading partner and aid donor. How are economic relations between the Soviet Union and Vietnam regulated? To what extent is Vietnam reliant upon Soviet economic aid and trade? Has the Soviet Union been able to benefit from this aspect of its relationship with Vietnam? These are just some of the questions which this article will attempt to answer through a survey of Soviet-Vietnamese economic relations since the conclusion of their Treaty of Friendship and Co-operation.

Scope of Direct Soviet Economic Aid to Vietnam

Soviet-Vietnamese economic relations have been regulated since 1979 broadly within the framework of CMEA multilateral co-operation but specifically within

the ambit of the generalized provisions contained in Article Two of the Treaty of Friendship and Co-operation. As the Article states:

The High Contracting Parties will join efforts for strengthening and expanding reciprocally advantageous economic, scientific, and technical co-operation, of steadily raising the material, cultural and living standards of the peoples of their countries. The Two Sides will continue long-term coordination of their national economic plans, will correlate forward-looking measures towards developing crucial branches of the economy, science and engineering, will exchange knowledge and experience accumulated in socialist and communist construction.¹

Such is the ambiguity of the provisions contained in Soviet treaties with Third-World states (as shown in the above Article), that further negotiations to define the extent and the character of the co-operation actually envisaged by the two parties have in all instances been necessary. And so it proved to be in the case of the Soviet-initiated treaty with Vietnam. In this respect, the speed with which the two states moved towards drawing up detailed terms and conditions for economic co-operation is particularly striking, when compared with previous bilateral treaties concluded by the Soviet Government with other fraternal countries. Indeed, it was during the same visit he made to Moscow to append his signature to the twenty-five-year Friendship and Co-operation Treaty, that Prime Minister Pham Van Dong was able to conclude a number of economic agreements with his hosts. Of these, the USSR-SRV Agreement on Further Development and Extending Co-operation in Economics, Science and Technology was the most important.

In essence, when taken together, the agreements represented a commitment by the Soviet Union to assist Vietnam technically and financially in its economic planning process, and in the construction of key industrial enterprises considered to be "of great importance to the development of the Vietnamese economy".² As an initial assistance package, the agreements indicated the approach the Soviet Government was to take in providing aid to alleviate the economic ills besetting Vietnam. By concentrating its resources on the more important sectors of Vietnamese industry, the Soviet Union has sought to develop the infrastructural base of Vietnam's economy, so as to enable Vietnam "to make effective use of its own natural resources, existing production potential and tremendous manpower" assets.³ This approach was re-emphasized in September 1981, when on a visit to the Soviet capital, Party Secretary Le Duan successfully obtained assistance for a short-list of forty-two "top priority" Vietnamese industrial projects. As one Vietnam-watcher observed, "by becoming involved in many important industrial projects, the Soviet Union will increase its influence in the Vietnamese economy".⁴

Some of the more important projects into which Soviet assistance has been channelled over the last six years include the construction of the Hoa Binh and Tri An hydro-electric power stations, with projected generating capacities of 1,920,000 and 320,000 kilowatts of electricity respectively, and the 640,000

kilowatt Pha Lai thermo-electric power station.⁵ Assistance has also gone into improving the railway connections between Hanoi and the cities of Haiphong and Lao Cai, the reconstruction of Haiphong harbour, and the construction of the Thang Long bridge over the Red River.⁶

It is evident that the nature of these projects reflects the Soviet penchant for the large and prestigious: an inclination which appears to be displayed by the Vietnamese themselves. As David Jenkins has written:

In ideological and planning terms, the Vietnamese have much in common with the Soviets. Their ideology, as far as they have any, is fundamentally of the old-fashioned kind. And their ideas about building the economy are very much in line with those adopted by the Soviet Union in the 1930s. Any Soviet economic advice tends to be highly orthodox and inflexible. The emphasis in Soviet aid is on trying to create the necessary infrastructure for industrialisation.⁷

This socio-economic philosophy has manifested itself in other areas of the Soviet Government's assistance to Vietnam. In the field of heavy industry, the Kremlin has pledged assistance for the construction of plants which would produce, among other things, tractors, fertilizer, and cement.⁸ Plans for many other heavy industrial enterprises remain on the drawing-board, and will be implemented in stages once most of the current projects are functioning.

As with heavy industry, the production of light consumer goods has also received Soviet assistance, albeit on a smaller scale. An example of assistance in this area has been the construction in Ho Chi Minh City of a modern pharmaceutical factory producing a range of medicines. Under the terms agreed, the capital and raw materials for the operations of these factories are provided by the Soviet Government in return for up to 90 per cent of their finished products. Usually, only a small percentage, written-off as loss in production, is kept for Vietnam's own needs.⁹

Soviet assistance has also been essential in developing Vietnam as a potential raw materials exporter. This involves the provision of both Soviet finance and equipment for the extraction of Vietnamese mineral deposits such as bauxite, coal, copper, oil, and tin, which are the most significant minerals Vietnam is amply endowed with.

In the agricultural sector, besides introducing stronger and higher-yielding strains of rice, the Soviet Union is also engaged in helping, and indeed enthusiastically urging, the Hanoi authorities to cultivate what are known as "technical" crops.¹⁰ Included under this label are crops such as coffee, tea, tobacco, cotton, rubber, and tropical fruit, all intended for export. An important example of efforts toward this kind of commercially-oriented enterprise, has been the cultivation of rubber trees on a 50,000 hectare site in the southern Vietnamese province of Songbe.¹¹ Intended to supplement Vietnam's existing natural rubber production, this medium-to-long-term project is expected to result in substantial benefits for both countries within six to seven years. Equally vigorous efforts have also been

directed towards expanding the existing acreage of other cash-crops in an attempt to satisfy the insatiable appetite of the Soviet domestic market for such produce.

From the perspective of both the diverse range and number of projects undertaken, it is evident that the Soviet Government has succeeded in acquiring for itself a substantial influence in deciding upon the direction in which the Vietnamese economy develops. This fact is perhaps graphically underscored by the estimated 6,000 Soviet technical personnel who have been working in Vietnam since 1979. There is little doubt that their presence, together with the inputs of Soviet *matériel* and financial aid, have made an important impact upon, and have become an essential part of, the mainsprings of Vietnam's economy. In consequence, internationally isolated Vietnam has found itself dependent upon those resources, and *ipso facto* upon the state providing them.

The manner in which Soviet influence has been able to percolate through to the various sectors of the Vietnamese economy, also owes something to the nature of the aid programmes which the Soviet Government has elected to employ. By phasing out five-year aid agreements in 1980,¹² and by replacing them with project aid agreements, a degree of Soviet participation in the Vietnamese economic decision-making process has since become a necessary facet of the Soviet-Vietnamese working relationship. In Hanoi's own words:

The coordination of the State plans of the two countries, mutual consultations on questions of long-term strategic development and coordination of economic policies have become an extremely important instrument to coordinate the programs carried out by the two countries.¹³

Whether or not this less-than-precise statement suggests that Vietnam has lost control over its economic planning strategies, is a moot point amongst Western commentators. The division of opinion that has arisen is largely a product of the discreet and relatively unsophisticated nature of Vietnam's economic planning mechanisms, which do not allow for close scrutiny and therefore accurate assessments from outside.

All of this, however, does not of course preclude the possibility that at some stage in the future, the spectre of a Vietnam having lost its freedom to manage its own domestic needs may become a reality. Being the natural beneficiary of such a Vietnamese condition, it is not surprising that the Soviet Union has adopted measures aimed at hastening this outcome. These measures have largely taken on the guise of economic aid and trade agreements. And in this regard, those concluded in mid-1981 were particularly cogent examples of Soviet efforts towards circumscribing Vietnam's independence. Indeed, the agreements had the net effect of further integrating the Vietnamese economy into the "socialist world system".¹⁴

The agreements were classified under four major headings. Two of these, the SRV-USSR Economic, Scientific, and Technical Agreement (24 July), and the SRV-USSR 1981-1985 Trade Agreement (30 July), augmented the November 1978 agreements. And a third, the Joint SRV-USSR Continental Shelf Oil-Gas

Exploration and Exploitation Enterprise Agreement (19 June), ratified the decision taken in 1980 whereby the Soviet Union pledged to provide finance, equipment and technical expertise for oil and gas exploration activities in the waters adjacent to Vietnam. Finally, the fourth, under the heading of the Agreement to Coordinate National Economic Planning 1981-85 (9 July), was really an exercise symbolizing the close economic relationship between the two countries by formalizing in print its "less ad hoc more systematized" character.¹⁵

It was the co-operation which was to take place in the field of oil and gas development on the Vietnamese continental shelf that provided a clue to the Soviet Union's political objectives, as well as a pointer to the way in which future Soviet assistance to Vietnam was to proceed. Indeed, this area of co-operation was both notable and novel, inasmuch as it literally gave "the Soviet Union certain economic rights in the seas claimed by Vietnam".¹⁶ These rights in turn provided the Kremlin with a lever which would enable it to influence on the one hand negotiations on Western oil interests in Vietnamese offshore areas, and on the other, the Sino-Vietnamese dispute over the delimitation of boundaries on the continental shelf.¹⁷ The latter, in particular, was once again to emphasize the trade-off between economic aid and political influence in the conduct of Soviet-Vietnamese economic co-operation. Though that trade-off is a useful means by which the Soviet Government might be able to achieve its political objectives — the chief *raison d'être* for its economic involvement in Vietnam — it also represents a not insignificant financial cost which must be borne by the Soviet economy. That cost since 1979 has generally been valued at not less than US\$2 million a day. When the military contribution is incorporated, it is estimated to be almost double that figure, and annually adds up to an amount approximating 20 per cent of Vietnam's gross national product.¹⁸

Apart from Sweden, and to a lesser extent, Denmark and France, the Western countries together with Japan have since 1979 suspended their aid programmes in Vietnam, tying the resumption of such programmes to a full Vietnamese military withdrawal from Kampuchea. As a result, the combined Eastern European contribution of about US\$500 million,¹⁹ and the Soviet Union's roughly estimated US\$1 billion annual economic aid disbursements, have become essential in keeping the Vietnamese economy on an even keel, precariously balanced though it may be. Vietnam's dependence on such direct Soviet and Soviet-inspired aid disbursements cannot, therefore, be overstated.

The Trading Relationship

It is not only through the instrument of direct aid flows that one is able to gain an insight into the extent of Vietnam's economic dependence upon the Soviet Union. The other aspect which has played the similar function of keeping Vietnam's fragile economy afloat is in the area of bilateral trade.

Since the early 1970s, Soviet-Vietnamese two-way trade has grown in spectacular fashion to a point where today the Soviet Union is Vietnam's biggest

trading partner, accounting for more than 60 per cent of Vietnamese foreign trade.²⁰ Vietnam's trade with the Soviet Union, like other intra-CMEA trade, is conducted on an account clearance basis whereby balance-of-trade deficits are brought forward to the following year, and do not need to be settled by cash transactions. In fact, because of easy long-term credits, hardly any monies change hands in a trading regime operating under the old-fashioned (but typically CMEA) means of barter. Under this regime, Vietnam has consistently incurred a balance-of-trade deficit against the Soviet Union. That deficit, as shown in Table 1, has continued to grow increasingly large, and in turn has led to a snowballing of the Vietnamese debt.

TABLE 1
SOVIET-VIETNAMESE TRADE BY VALUE
(In millions of roubles)

Year	Soviet exports to Vietnam	Soviet imports from Vietnam	Vietnamese balance
1975	160	50	-110
1976	230	70	-160
1977	270	130	-140
1978	300	150	-150
1979	450	150	-300
1980	450	160	-290
1981	720	170	-550
1982	800	210	-590
1983	900	234	-666
1984	1000	260	-740

SOURCES: *Soviet Trade Yearbooks*, various years (1975-84); Economist Intelligence Unit, *Quarterly Economic Review of Indochina: Vietnam, Laos, Cambodia*, No. 2 (1985): 21; and *Indochina Chronology III*, No. 3, (July-September 1984), p. 28.

The goods which Vietnam exports to the Soviet Union consist mainly of commodities such as rubber, tea, coffee, fruit (pineapples, bananas), and a variety of tropical timber. Light goods such as clothing, carpets, handicrafts (lacquered rocks, wicker baskets), and pharmaceuticals are also exported usually under buy-back arrangements. As we have seen, this scheme involves the Soviet Government providing both the raw material inputs and finance for the manufacture of these products, in return for an agreed amount of their total manufactured output. According to a Hungarian, Rezso Nyers,

... the exchange of raw material for finished products [*sic*] between the Soviet Union and the smaller countries is a basic economic-geographical fact ...

without it CMEA co-operation could only be realized on a lower level than at present.²¹

That exchange is indeed an aspect of the economic philosophy which the Soviet Union has attempted to firmly establish in Vietnam as elsewhere. Nyers describes it as "the hard nucleus of co-operation in the Soviet-centered sphere of the CMEA."²²

In addition to commodities and factory-produced everyday items, the Soviet Union is also a large and willing market for Vietnamese vodka. This is an important product because it serves as a useful substitute for high-quality Russian vodka (which would otherwise be consumed domestically). The latter may then be sold to Western countries, thereby earning valuable hard currency for the Soviet treasury.²³

In partial exchange for these Vietnamese goods, the Soviet Union has since 1979 supplied Vietnam with all of its fuel and lubricants (about 1.6 million tonnes of refined petroleum a year), 90 per cent of its steel, 80 per cent of all other metallurgical products, more than 90 per cent of its nitrogeous fertilizer (550,000 tonnes in 1982), and up to 90 per cent of its cotton.²⁴ Moreover, the Soviet Union has to a considerable extent been offsetting the frequent shortfalls in Vietnam's annual grain production. In 1980, Soviet grain shipments to Vietnam amounted to 1.2 million metric tonnes (mt).²⁵ It decreased to 860,000 mt in 1981, and to 200,000 mt in 1982 as Vietnamese agricultural production began to recover from the setbacks of 1978-79.²⁶ Generally, since 1979, imports of Soviet-supplied grain accounted for almost 70 per cent of Vietnam's total grain imports.²⁷ The itemized value of Soviet exports to Vietnam between the years 1975 and 1982 are detailed under broad headings in Table 2.

TABLE 2
SOVIET EXPORTS TO VIETNAM
(In millions of roubles)

Items	Year	1975	1976	1977	1978	1979	1980	1981	1982
Machines & Equipment		68.0	102.9	120.3	129.1	224.2	215.0	244.1	255.5
Oil & Oil Products		11.3	14.2	27.8	28.0	31.8	38.8	213.8	363.3
Cotton Fibre		5.5	16.8	18.9	20.3	31.0	23.5	34.2	55.2
Other		73.9	98.6	107.2	128.1	159.2	187.2	232.5	230.0
Total		158.7	232.5	274.2	305.5	446.2	454.9	724.6	804.2
Annual Percentage Increase			46.5	17.9	11.4	46.1	1.9	59.3	11.0

SOURCES: Adam Fforde, *Economic aspects of the Soviet-Vietnamese relationship: their role and importance*, Birkbeck College Discussion Paper, No. 156 (October 1984), p. 42; and *Indochina Chronology II*, No. 1 (Jan-Mar 1983): 14-15.

It is interesting to note from the table that the large annual percentage increases in Soviet exports occurred during three significant years: 1976 (46.5 per

cent), 1979 (46.1 per cent), and 1981 (59.3 per cent). Nineteen seventy-six, in addition to opening the post-Vietnam war era, was also the year in which the two halves of Vietnam were formally unified. With southern Vietnam deprived of American aid, which in 1974 had been worth about US\$1.6 billion,²⁸ the Soviet Union was obliged to shoulder a greater economic burden than it had done during the war years. It needed to replace part of that aid by increasing its own exports to Vietnam. The large increase in Soviet exports to Vietnam witnessed in 1979 similarly followed a number of momentous events in the preceding year: the cessation of Chinese economic aid, the conclusion of the Treaty of Friendship and Co-operation, and the invasion of Kampuchea. These three events guaranteed greater Soviet economic involvement with Vietnam. Finally, 1981, though heralding the commencement of Vietnam's Third Five-Year Plan (1981-85), was also the year in which the Soviet Union decided to charge Vietnam higher prices for some of its exports. In particular, Soviet oil was increased in price by a swingeing 400 per cent, from US\$4 to US\$16 a barrel.²⁹ This and other increases in the prices charged for certain goods had a markedly strong influence on the pattern of trade between the two countries.

As shown in Table 1, the value of the Soviet Union's exports to Vietnam add up to almost four times the value of its imports from that country. This substantial, recurrent trade imbalance is directly financed by the Soviet state, which for all practical purposes ends up by paying for aid parcels to Vietnam. Such is the reality of the trading relationship that the Soviet Government has attempted by various means to narrow the trade gap between the two countries. This has, at a very basic level, taken the form of sending trade officials to scour the Vietnamese countryside in search of exportable goods in a determined effort to remit every rouble it can to equalize the horrendous trade imbalance.³⁰

On a far more complex level, the Soviet Government has firmly committed itself to influence changes in the pattern of Vietnamese agricultural production. This has taken the form of a three-pronged approach: (a) encouraging the Vietnamese Government to implement a system of "household contracting" in agriculture;³¹ (b) increasing the production inputs of Soviet-supplied materials (essentially fertilizer) for Vietnamese agriculture; and (c) effecting a general upward revision in procurement prices for selectively targeted agricultural goods (both imports and exports). These measures have been adopted in order to stimulate a far more rapid growth in Vietnam's gross agricultural output, thereby obviating the need for inordinately large imports of Soviet foodstuffs, and at the same time enabling Vietnam to export a greater proportion of its cash crops to the large Soviet domestic market. The crystallized results of these measures would in turn firmly establish Vietnam's place as a supplier of tropical products within the Soviet-designed CMEA framework.

This specific theme of the Soviet Union encouraging and facilitating desired structural changes in the pattern of Vietnam's economic production by the use of cost-accounting and other regulatory stimuli can be clearly argued with the use of statistical data. Table 3 sets out the recorded unit values of selected Soviet export

items to Vietnam for the years 1978–83. As shown in the table, 1981 saw the biggest price increase of two out of the three items listed: cotton fibre (60.1 per cent) and sugar (165.4 per cent). The price of the third item, wheat, increased by 85 per cent in 1980. For these three items, but more specifically for wheat, Soviet pricing policy was clearly aimed at reducing Vietnam's chronic dependence upon the foreign supply of these products, by creating an incentive for their (or their tropical substitutes') domestic production by both the state and householders.³² In the case of wheat, the pressure of pricing policy was even more pronounced, with the price in 1980 pegged at 72 per cent above the world price. This was in contrast to a year earlier when the Soviet and world wheat prices were almost level-pegging at about 102 roubles per tonne.

TABLE 3
UNIT VALUES OF SELECTED SOVIET EXPORTS TO VIETNAM
(In roubles per tonne)

Items / Year	1978	1979	1980	1981	1982	1983
Cotton Fibre	721	715	726	1168	1182	1219
Wheat	80	101.7	188.1	207.2	156	—
World Price	85.3	103.4	109.3	111.3	96.8	—
Sugar	94.4	94.8	87.4	232	232	238.4
World Price	117	140	410	269	—	—
Transferable Rouble Rate (Rouble/US\$)	0.683	0.655	0.649	0.723	0.727	0.743

SOURCES: Economist Intelligence Unit, *Quarterly Economic Review of Indochina: Vietnam, Laos, Cambodia*, No. 1 (1985): 15; *Commodity Trade and Price Trends*, 1983–84 edition; and *COMECON Data 1981*, p. 323.

Soviet economic advisers were to strengthen the effect of this materially rewarding pricing policy by tying it to the shift in the system of "household-contracting", which occurred in 1979–80. In this respect, the Soviet Union progressively increased the annual shipments to Vietnam of a badly needed agricultural input, fertilizer: from 94,000 tonnes in 1978 to 172,000 tonnes in 1979, to 275,000 tonnes in 1980, and to 550,000 tonnes in 1982.³³ The extent to which fertilizer deliveries were increased was not matched by any other Soviet export item (during those five years). This is a significant trend which is expected to continue until Vietnam's own fertilizer plants begin production.

If prices of selected Soviet exports to Vietnam increased substantially in 1980–81, the same period witnessed a similar adjustment in the prices of several Vietnamese export items, a move which was also inspired by Soviet economic advisers. In Table 4, the unit recorded values of three Vietnamese exports have been listed for the years 1978–83. Coffee, tea and rubber, though accounting for

only about 16 per cent of Vietnamese exports to the Soviet Union, are in fact, together with fruit, the focus of attempts to increase trade.³⁴ This is partly due to the extraordinarily great demand which these goods enjoy in the Soviet Far East. The existence of an inexpensive and short sea route from Haiphong to Vladivostok (only seven days sailing), compared to the overland route from Western Russia, has also spurred attempts to increase Vietnamese exports of these tropical products.

TABLE 4
UNIT VALUES OF SELECTED SOVIET IMPORTS FROM VIETNAM
(In roubles per tonne)

Items	Year	1978	1979	1980	1981	1982	1983
Coffee		697	708	706	2104	1963	2086
World Price		2772	2669	2717	2539	2322	2194
Tea		974	956	1025	1243	1341	1360
World Price		1495	1412	1449	1452	1410	1789
Rubber		—	—	539	661	759	—
World Price		719	842	966	824	641	—
Transferable Rouble Rate (Rouble/US\$)		0.683	0.655	0.649	0.723	0.727	0.743

SOURCES: Economist Intelligence Unit, *Quarterly Economic Review of Indochina: Vietnam, Laos, Cambodia*, No. 1 (1985): 15; *Commodity Trade and Price Trends*, 1983-84 edition; and *COMECON Data 1981*, p. 323.

In this context, by raising the procurement prices for some of these Vietnamese products (coffee and tea prices were increased by 198 per cent and 21 per cent respectively in 1981), and by pegging their prices closer to world prices, Moscow has attempted to encourage Hanoi to cultivate more of these crops, as well as to export them to the Soviet Union instead of to "hard-currency" countries. The example of rubber is particularly striking. As shown in Table 4, despite world prices for this commodity falling from 966 roubles per tonne (pt) in 1980 to 641 roubles pt in 1982, the Soviet procurement price for Vietnamese rubber over the same period actually went in the opposite direction, from 539 roubles pt to 759 roubles pt. The last figure surpassed the 1982 world price by 118 roubles pt, and signalled a serious intention by the Soviet Union to purchase every single tonne of rubber produced by Vietnam's plantations.³⁵ This intention would thus put into perspective the rationale behind the co-operative effort to establish the 50,000 hectare rubber plantation in the province of Songbe, which was referred to earlier.

Quite clearly, the evidence derived from unit price and input data strongly supports the view that the Soviet Union does play an active and influential role in encouraging real change, both in Vietnam's agricultural (and to some extent, limited manufacturing) capacities, and in its overall policy of economic

restructuring. It is also an attempt to improve, at least on paper, the lopsided balance of trade between the two countries. This, however, has not yet proven successful, in part because of the escalating bill for Soviet oil which Vietnam receives annually, and in part because of the slow pace at which agricultural crops mature and are ready for full-scale production. Therefore, while the Soviet Union may be Vietnam's top trading partner, this position is not in any sense reciprocated. In fact, Vietnamese imports into the Soviet Union account for less than one per cent of total Soviet annual imports.

Invisibles

Labour programme. With a scarcity of goods to export and an accumulating debt owed to the Soviet Union and the countries of Eastern Europe, the Vietnamese Government has resorted to a policy of mobilizing its massive manpower resources to pay off its debts, and at the same time to ease domestic unemployment. Under an inter-governmental agreement signed in Moscow on 2 April 1981, Vietnamese workers are sent to the Soviet Union for up to six years, "to be employed in factories, mines, irrigation or land reclamation projects".³⁶ Similar agreements were signed with Czechoslovakia, and Bulgaria in November of the same year, while one was signed with East Germany in January 1982. As acknowledged by Soviet sources, slightly less than 20,000 Vietnamese were working in the Soviet Union in 1984, mostly in the southern republics of Ukraine, Azerbaijan and Turkmenistan.³⁷ Czechoslovakia is reported to have a similar number, while East Germany and Bulgaria have also taken significantly large numbers of such Vietnamese migrant labour. Cumulatively, the official statistics reveal that in 1984, more than 60,000 Vietnamese workers were employed in the Soviet Union and the three Eastern European states.³⁸

In accordance with the inter-governmental agreements, individual Vietnamese workers receive 60 per cent of their wages. (In the case of a worker in a Soviet textile factory, this amounts to 60 per cent of a monthly salary of between 145 and 204 roubles.)³⁹ The other 40 per cent is written-off against Vietnam's debts to its CMEA partners.⁴⁰ In essence, this programme is probably one of the few ways in which Vietnam has been able to show its CMEA partners that its relationship with them is mutually beneficial. With the Soviet Union suffering from a severe labour shortage, with up to two million jobs lying vacant and a labour force growing more slowly each year, Vietnam can certainly contribute, albeit in a small way, towards alleviating this situation.⁴¹

Tourism. While Vietnam may be sending its nationals to the Soviet Union as a means of servicing its debts with that country, thousands of Soviet nationals have been arriving in Vietnam each year, not just as economic or military advisers, but also as tourists. With Vietnam's relative proximity to the Soviet Far East and attracted by its tropical climate, many hundreds of Soviet tourists travel from Siberia each month for a few weeks' vacation in several Vietnamese cities.⁴² These

cities, as M. Trigubenko notes, include "Doshon, a picturesque sea resort near Haiphong", and the "beautiful and well-appointed" resorts of Niachang, Hue and Dalat.⁴³ Generally, the vacationers have little money to spend, and as such their presence is not wholly welcomed by the local population, who have been known contemptuously to dismiss their guests as "Americans without dollars".⁴⁴ Indeed, by all accounts, both the Vietnamese Government and their people are not overly enthusiastic over this aspect of economic ties with their Soviet ally.

If anything, tourists from the wastelands of Siberia, just like Vietnamese contract workers in Soviet-bloc countries, give Vietnam the appearance of being a semi-autonomous satellite of the Soviet Union. As we have seen throughout this paper, such a characterization if viewed purely from the perspective of the overall economic relationship, might not in fact be too far off the mark.

Conclusion

The major theme which has emerged from this brief survey of Soviet-Vietnamese economic relations between the years 1979 and 1984 is that Soviet influence in the Vietnamese economy is not of a subtle nature but direct and substantial. Indeed, through the use of several skilfully employed techniques, the Soviet Union has been able to ease Vietnam increasingly into the Soviet-dominated socialist world system. These techniques have largely involved the following:

- The erection of a systematically constructed and extended network of bilateral economic agreements;
- The securing of greater managerial authority in the Vietnamese economic system through a tighter control over aid disbursements; and finally,
- The provision of materially rewarding incentives so as to stimulate an expansion of Vietnamese agricultural output, thereby underpinning Vietnam's major status as a tropical product supplier within the Moscow-led CMEA.

Taken together, the utilization of these techniques in pursuit of Soviet objectives has led to Vietnam experiencing the contradiction which it had tried so assiduously to avoid in the pre-1979 era. That contradiction is between Vietnam's basic need for economic aid and trade, and the real risks of dependency which are inherent in any unequal relationship.⁴⁵ It is clear that as long as the international isolation of the Vietnamese nation continues to be enforced, and by extension Vietnam's foreign economic options curtailed, the Soviet-Vietnamese relationship will not only remain durable but will continue to strengthen considerably in the years to come. Conversely, as long as Vietnam is able to continue with this element of Soviet aid in its economic development, it will to that extent remain independent of aid links to the West.

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An Interdisciplinary Experiment in Teaching the American-Indochina War*

JONATHAN GOLDSTEIN

Genesis of the Course

West Georgia College is a graduate-student and undergraduate unit of the state university system of Georgia with over 6,000 students. In November 1983, Albert Hanser, Chairman of the West Georgia History Department, proposed to Arts and Sciences Dean, Richard Dangle, that, for the first time, West Georgia offer a course exclusively on the history of the American-Indochina war.¹ It would cover not only Vietnam, but also Cambodia during the 1970 American invasion as well as Laos, possibly the most heavily bombed country in world history.² Hanser further suggested to Dangle that the war be taught in interdisciplinary fashion, similar to the way in which West Georgia had previously taught a course on World War II. Instruction would be by six professors representing the academic fields of military history, political science, sociology, United States diplomatic history, French history, and East Asian history. While consensus would have to be reached among the six professors on the choice of an overall text, each would have the leeway to include lectures, readings, examination questions as well as movies reflective of his or her particular point of view. As Robert Elegant, who reported on Southeast Asia for twenty years, has written in the British magazine, *Encounter*: "Vietnam was determined not only on the battlefield, but on the printed page, and above all, on the television screen".³

The educational objective of this interdisciplinary approach was to expose each student, by the end of the academic quarter, to a variety of scholarly and media perspectives on the war's causation, course, and historical significance.

The Dean approved the Chairman's conception of the course. Both administrators then created the organization for the course and the means for its widest appeal to students.

As with the interdisciplinary World War II course, the Dean authorized generous funding for the procurement of audio-visual materials. Because of the volume and vagaries of the audio-visual equipment involved, the class was held in the campus television station with a technician in attendance.

To maximize attendance, the Indochina class, like the World War II course, was cross-listed for registration purposes in the history, political science, and sociology departments. Students in each of these departments could thereby fulfil their major or minor requirements. In history and sociology, the course was cross-

listed on both graduate and undergraduate levels. All students would share the same in-class experience; graduate students, however, had to write additional essays at the mid-term and final examinations.

Another way to attract students was scheduling the class one night a week for four and a half hours per session for eleven weeks. This schedule attracted graduate students who were public school teachers who could commute long distances not more than one night a week. A four-and-a-half-hour ordeal seemed pedagogically unsound but multidisciplinary lectures and visual material diversified each session. An enrolment of nearly forty in an upper-division course was good by West Georgia College standards.

The Course Itself

The faculty which was selected by the History Department Chairman to participate in this interdisciplinary pilot course represented a diversity not only of disciplines but also of political perspectives. The military historian had previously taught at National Defense University, received funding from the politically-conservative Heritage Foundation, and served as military adviser to Georgia's "New Right" Congressman, Newt Gingrich. In contrast, the Political Science Professor was a military-cadet-turned-conscientious-objector during the Indochina War. His pacifism had led him to a career as an anti-draft counsellor and to a legal conviction, subsequently overturned with compensatory damages, for participating in an anti-war protest in Washington, D.C. The Sociology Professor had completed a tour of duty in Vietnam as a medical technician and later did graduate and post-doctoral study of military socialization patterns, specializing in such customs as the "fragging" of officers. His academic study and his personal reminiscences of Vietnam enlivened the course. The East Asian History Professor had published, in the *Annals* of the Southeast Conference of the Association for Asian Studies, a history of protest against American usage of chemical weaponry in Indochina.⁴ Both he, the United States diplomatic historian and the French historian, were characterized as "mainstream liberals" by the military historian who was responsible for organizing the course.

This wide array of disciplines and ideologies guaranteed intellectual excitement for the eleven weeks of the course. The extremists squared off regularly with each other, as with students of equally diverse and often shifting opinions. A summary of several nights of class discussion suggests some of the excitement generated by this interdisciplinary approach.

Night One: An East Asianist lectured on Indochinese geography, climate, and ethnicity, and then screened the travelogue: *Vietnam. An American Journey*. This movie depicted a journey of Americans in the early 1980s on the scenic highway between Hanoi and Ho Chi Minh City. In addition to the topography, much footage was devoted to alleged "evidence" of US/ARVN bombing and human "destruction". Reference was also made to the 1967 *Bertrand Russell*

International War Crimes Tribunal, which cited the United States for committing "atrocities". No sooner had the film ended than the military historian took the podium and criticized what he saw as the "bias" and "one-sidedness" of the *International War Crimes Tribunal*. He described unpublicized NLF (National Liberation Front), and DRV (Democratic Republic of Vietnam) destruction and killing in Hué during "Tet". After hearing these interpretations, the students not only questioned their professors, but argued with each other to clarify their own viewpoints and prejudices.⁵

Night Seven: Topic: "The Homefront". The pacifist political scientist gave personal reminiscences of his experiences with the military and his stateside anti-war activism. He and the East Asianist traced the shifting attitudes in Congress from the 1964 Tonkin Gulf authorization for intervention in Indochina all the way to the 1974 Edward Kennedy amendment which barred the use of Defense Department funds in Southeast Asia. After presentations by the two professors, the movie, *The War at Home*, was screened — a documentary about the ideational transformation of Madison, Wisconsin, in the 1960s due to the Indochina conflict. Based on both lectures and film, students then discussed such questions as: how did the general social and moral climate of the 1960s provide fertile ground for the anti-war movement? How was the anti-war movement indebted to the methods and aims of the civil rights movement? What is the meaning of the phrase "credibility gap?" Were anti-war organizations effective in producing governmental responsiveness and change, or were they mere outlets for individual existential protest? Why did many Indochina veterans join the peace movement, and what new strengths did they bring to it? Could the events of the Vietnam era happen again? The evening ended with a discussion of the mining of Nicaragua's harbours, with the military historian defending the act, and the pacifist political scientist and "mainstream liberals" citing World Court condemnation of the act and favouring peaceful negotiations as an alternative.

Night Eight: The military historian and East Asianist introduced and screened the Public Broadcasting System's (PBS) film, *Cambodia and Laos*. In subsequent discussion, the military historian defended the "legality" of the 1970 United States invasion of Cambodia on the grounds of the right of American troops to defend themselves, and also on the grounds that other outsiders, the DRV, were also present in Cambodia. Students and "mainstream" faculty members challenged the right of the United States to arrogate unto itself the decision to intervene in a sovereign state without international sanction. That evening's discussion, and subsequent evenings, ended with all sides drawing analogies to the Nicaraguan situation.

A Personal Evaluation of the Experiment

With the benefit of student and peer evaluations, certain generalizations can be drawn regarding the relative success of the course.

The military historian who co-ordinated the course was acclaimed — by students and faculty alike — for both indefatigably expressing his own viewpoint and allowing other faculty and students equal time.

From my viewpoint, among his most critical tasks was achieving consensus among faculty members on textbook and movie selection. This may be an inherent weakness in the interdisciplinary approach. The lowest common denominator on which all faculty could agree was the Karnow text and the related Public Broadcasting System's series, *Vietnam. A Television History*.⁶ As Karnow is somewhat weak on the Nixon years, on the air war, on government officials' and upper military reminiscences, my personal choice of texts would have been George Herring's highly interpretative *America's Longest War* (1979), and Peter Poole's survey, *Eight Presidents and Indochina* (1978).⁷ I would also have included written, filmed and recorded audio commentary by ordinary soldiers, prisoners of war, and non-military stateside protestors.⁸ Such choices for the entire course were impossible given the diversity of opinion among the instructors. Nevertheless, each instructor could maximize the latitude allowed him within the time frame of his own presentation. Each could choose which (if any) Public Broadcasting System programme he wished to screen, plus other written, filmed or recorded audio-materials reflecting his particular point of view. Although no additional full-length books could be assigned, further readings were suggested by instructors in the course of lectures. Of the thirteen PBS programmes, only nine (2, 3, 4, 5, 6, 7, 9, 10 and 13) were actually chosen by the professors to be shown. Thus, students received a lowest common denominator overview from Karnow and portions of the PBS series, plus divergent views of the war from each individual professor's presentation.

The organizers of the class already know that the course succeeded in communicating the intensity of emotion and divergent viewpoints which still characterize American debate over the Indochina war. Most students came away more convinced than before of the complexity of a historical problem and more respectful towards and better informed about divergent historical analyses of Indochina and even of Central America. One possible improvement in attaining this objective the next time the class is offered would be to give each student at the end of the course a bibliography of additional readings, so that he or she could further delve into problems which continue to intrigue him or her.⁹ We also have yet to find out if there was any derivative impact of the intellectual excitement generated in the Indochina course in terms of subsequent student enrolment in other courses, such as Political Science, United States Diplomatic History, or Asian Studies. Were students sufficiently inspired by the Indochina class to want to expand their knowledge through additional coursework? Has there been any derivative impact on student participation in such extracurricular activities as the college debating team or campus political organizations?

A question which the organizers of the course are still debating is whether this was an interdisciplinary course as much as it was a course argued from a variety of political perspectives. Were arguments resolved, or were students simply faced

with different partisans re-arguing old issues without any resolution in sight? Students and faculty members departed from the course with a consensus on a single issue: the undeniability of human suffering and material loss caused by United States involvement in Indochina. It would be difficult to cite any other historical point which the instructors agreed was objectively true.

One shortcoming which may have derived from this larger failure to agree on objectives was the lack of a substantial mechanism for testing student learning. The methods for evaluating student performance were experimental and improvable. Mid-term and final examinations were constructed and graded cooperatively, in the sense that for each examination each instructor contributed ten objective questions and one essay question pertaining to his specific presentation and assignments. The objective questions were graded by a teaching assistant, and the essays individually by the professor who had assigned them. There was no consensus by the instructors on questions.

While examinations could be prepared and corrected in this divided fashion, no provision at all was made in the course for students to write summaries at home of the visual materials they had experienced in class. Such summaries would have been especially useful as clarification exercises following the controversial movies. But which instructor would have corrected them? In the case of majors and minors, would it have been the professor representing the student's department? What about students whose major or minor departments were not represented on the teaching team? Nor was time allocated for student research projects. Again, which instructor would have approved the topics and guided and graded the students?

Hopefully, the next time this course is offered, a mechanism can be worked out for students to clarify their thoughts through take-home writing and research assignments, and more substantive mechanisms can be devised for testing student learning from the course.

In summation, the goal of the faculty which organized the course was to give each student an appreciation of the complexity of America's longest war, one of the cataclysmic events in American history, and an event the aftershocks of which may reverberate in American society into the twenty-first century. This goal was basically achieved. The interaction among faculty members brought on by a team-teaching approach was a source of personal pleasure and learning for my colleagues and for myself. I would be most grateful for specific criticisms and suggestions for improving the course.

APPENDIX

Course Outline for Class on American-Indochina War

Eleven class meetings of four and a half hours each were held. Readings in the Karnow text were assigned on each topic.

NIGHT ONE

General introduction to class by co-ordinator (military historian); East Asianist's introduction, screening, and discussion of travelogue/documentary, *Vietnam. An American Journey*; East Asianist's lecture on Indochinese geography, climate, ethnicity, and early modern history up to the arrival of the French.

NIGHT TWO

French historian lectured on French involvement in Indochina and the 1946-54 French-Indochinese war; screened and led discussion of *The First Vietnam War (1946-54)*, programme two of PBS series.

NIGHT THREE

United States diplomatic historian lectured about the roots of American involvement in the Indochina war; screened and led discussion of *America's Mandarin (1954-63)* and *LBJ Goes to War (1964-65)*, programmes three and four of PBS series.

NIGHT FOUR

Pacifist political scientist lectured on NLF/DRV forces, and role of ideology as a motivating factor; screened and led discussion of *America Takes Charge (1965-67)* and *America's Enemy (1954-67)*, programmes five and six of PBS series.

NIGHT FIVE

Mid-term examination collectively prepared and graded by teaching team.

NIGHT SIX

Military historian discussed "Tet" and screened and led discussion of *Tet 1968*, programme seven of PBS series.

NIGHT SEVEN

"The home front". Pacifist political scientist recounted his experiences with the military and as a conscientious objector; led discussion of those themes; military historian presented opposing viewpoint. East Asianist lectured on domestic opposition to the American-Indochina war with respect to shifting attitudes within Congress; he and pacifist political scientist screened and led discussion of documentary film, *The War at Home*.

NIGHT EIGHT

Military historian and East Asianist screened and led discussion of *Cambodia and Laos*, programme nine of PBS series.

NIGHT NINE

Sociologist lectured on socialization patterns within the United States military;

screened and led discussion of *Peace is at Hand* (1968-77), programme ten of PBS series.

NIGHT TEN

Screening of *Legacies*, programme thirteen of PBS series; discussion by entire faculty and students under supervision of military historian (course co-ordinator).

NIGHT ELEVEN

Final examination collectively prepared and graded by teaching team.

NOTES AND REFERENCES

* This paper was originally prepared for the Annual Meeting of the Southeast Conference of the Association for Asian Studies, Durham, North Carolina, 19 January 1985, as part of a panel on "Teaching the Vietnam War".

1. The term "American-Indochina War" is used because what is commonly referred to as the "Vietnam war" transcended the borders of Vietnam. The war in Indochina had been going on long before Americans became actively involved in fighting the Viet Cong (NLF) and the North Vietnamese (DRV). One can date the conflict from the 1930s, July 1940, 1946, or even 1954. It did not end when the United States left Vietnam in 1973 and Thailand in 1976.
2. Letter from Major Earl H. Tilford, Jr., Department of the Air Force, Air University, to the author, 7 January 1985, pointed out that, fundamentally, the United States bombed the country of Laos, not the people. Most bombs fell on the Ho Chi Minh Trail, well away from the populated Mekong Valley region. The tonnage of bombs soared when the United States began flying up to thirty B-52 sorties a day to drop bombs in one-square-mile areas near Tchepone and near the Mu Gia and Ban Kari infiltration passes. This bombing did little more than alter landscape and move dirt. Bombing, like any expenditure of energy, must be focused to be effective. Few villages were destroyed by the bombing, the principal ones being Tchepone, Xeing Kuong, Xeing Kuongville, and Ban Ban. All of these, particularly Tchepone, were North Vietnamese transshipment points and had ceased being "villages" in the normal sense.
3. Robert Elegant, quoted in John Corry, "TV: The Tet Offensive in Vietnam", *New York Times*, 8 November 1983, p. C15.
4. Jonathan Goldstein, "Indochina War on Campus: The Summit/Spicerack Controversy at the University of Pennsylvania, 1965-67", *Annals of the Southeast Conference of the Association for Asian Studies* (1983), pp. 78-99.
5. It should be noted that these interpretations do not necessarily conflict. Statements that "the United States committed atrocities" and "communists committed atrocities" can both be true and in no way inconsistent.
6. Stanley Karnow, *Vietnam. A History* (New York: Viking, 1983).
7. George Herring, *America's Longest War. The United States and Vietnam 1950-1975* (New York: Wiley, 1979); and Peter Poole, *Eight Presidents and Indochina* (Malabar, Florida: Krieger, 1978).
8. For titles of fiction and movies, see the following papers, all of which were presented at the Annual Meeting of the Organization of American Historians, Los Angeles, 5 April 1984, as part of a panel on "Teaching the Vietnam War": Sandra Taylor, "Vietnam through a Different Lens: Fiction, Memoirs and History"; Terry Anderson, "Popular Music and the Vietnam War"; and David Culbert, "Vietnam on Film and Television". See also, Martin Novelli, "Teaching the Vietnam War

with Film (and Literature)" (Paper presented at Duquesne History Forum, Pittsburgh, 8 November 1984, as part of a panel on "Teaching the Vietnam War").

9. As a possible bibliography, see James Fetzer, "The United States and the Vietnam War: A Selected Bibliography", *American-East Asian Relations Newsletter* 4, no. 3 (December 1984): 47-52.

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DOCUMENTATION

Reagan's Peace Process for Regional Conflicts

President Reagan has proposed a three-level peace process to address continuing wars in Afghanistan, Cambodia, Nicaragua, Angola and Ethiopia. The following is a White House fact sheet on the peace process and the conflicts it addresses.

The President's Initiative on Regional Conflict

BACKGROUND: Soviet interventionism in the 1970s left in its wake a series of repressive regimes, seeking to impose alien ideologies on countries by military force, and kept in power by Soviet military aid. The policies of these regimes have given rise to indigenous opposition seeking to liberalize or overthrow them. The result has been conflicts which are taking a heavy human toll, are spilling across international boundaries, and are drawing in outside military involvement. The President has made clear that our sympathies are with those who resist Soviet expansionism, fight for freedom, and seek genuine self-determination. If these problems cannot be resolved through negotiations and by Soviet restraint, they will only worsen. The President hopes to provide a means by which to pursue political, rather than military, solutions to these problems.

DESCRIPTION: In his address to the General Assembly, the President proposed a peace process at three levels to address the continuing wars in Afghanistan, Cambodia, Nicaragua, Angola and Ethiopia, where Soviet involvement contributed to the deterioration of U.S.-Soviet relations in the 1970s. The initiative is a comprehensive framework designed to improve the prospects for peace in these areas. It complements regional and other international efforts to achieve lasting political solutions. Progress in this can also facilitate an improvement in overall East-West relations.

1. The first level calls for negotiations between the warring parties. The form of such talks in each instance might vary but negotiations and the improvement of internal political conditions are essential to achieving an end to violence and true national reconciliation.

2. Once real progress in these areas has been made, the United States and the Soviet Union could hold a separate set of talks. These would not be formal peace negotiations but would explore how these two governments could support regional and other international peace-making efforts. In some cases, such as Afghanistan and Cambodia, the United States and the USSR might offer guarantees for agreements already reached by the warring parties. In every case, the primary U.S.-Soviet role would be to reduce and eliminate outside military involvement, including verified withdrawal of foreign troops and restraint on the flow of outside arms.

3. If the first two stages are successful, a third element of a long-term solution would become possible: reintegration of the war-torn nations into the international economy. The United States would be willing to contribute generously to democratic reconciliation with their own people, their respect for human rights and their return to the family of free nations.

This approach puts the burden on the warring parties to reach accommodation and offers a framework for achieving superpower restraint. It is clear that no U.S.-Soviet condominium can solve these problems. We must bear in mind that each of these conflicts has its own character and requirements for a political solution. Regional peace-making initiatives like Contadora in Central America and ASEAN's proposals for Cambodia have sought to address precisely these individual characteristics. The United States supports those initiatives and believes that this proposal will complement them by providing for participation by the warring parties.

REGIONAL CONFLICTS AND U.S.-SOVIET RELATIONS: Soviet involvement in Third-World conflicts has had a direct effect in souring U.S.-Soviet relations, especially over the last decade.

In September 1984, President Reagan proposed to the UNGA that the United States and the Soviet Union hold periodic exchanges at the policy level on key regions of the world. Over the past year the two sides have held experts talks on the Middle East, Afghanistan, southern Africa and East Asia. Talks on Central America and the Caribbean will be held at the end of October. While these talks have not produced dramatic breakthroughs, they have been useful for clarifying views and preventing miscalculation. We hope these talks will continue on a more regular basis in the future. The President, however, would like to move beyond exchanging views.

SPECIFIC REGIONAL CONFLICTS:

1. Namibia/Angola

Soviet intervention in the Angolan conflict was the first use of surrogate Cuban troops in the 1970s. Cuban forces enabled the present regime to take power, but it has not been able to end the resistance efforts of groups opposing its dictatorship. U.S. attempts to discuss the issue with the Soviets, and especially the Cuban troop issue, drew only brusque responses that the matter was one between the Cubans and Angolans.

U.S. policy for Angola/Namibia is aimed at achieving a negotiated agreement for Namibian independence under United Nations Security Council Resolution 435-78 and in that context the withdrawal of both South African forces from Namibia and Cuban forces from Angola. To this end, we have worked to bring the two sides, Angola and South Africa, into a negotiating framework in which they could reach the hard decisions necessary for such a settlement.

The President's initiative is aimed at seeking a way to reduce regional tensions and to test Soviet willingness to play a constructive role in Angola. The Soviet Union is directly involved in the Angolan conflict and bears a responsibility for resolving it. In fact, Soviet military involvement appears to be growing. U.S. efforts will continue to seek a resolution of the international aspects of the problem. The Angolan parties must reconcile themselves. We are calling on the Soviet Union both to contribute to this process and to play a constructive role in promoting reconciliation.

2. Afghanistan

The December 1979 Soviet invasion of Afghanistan ended any prospects for ratification of the SALT Two accord and led to the imposition of sanctions by the U.S. and Western countries including Japan, sanctions which included the boycott of the Moscow Olympics and the embargo on U.S. grain sales. The Soviet occupation of Afghanistan and the continuing brutal repression of the country has outraged world public opinion and seriously damaged East-West relations. In diplomatic consultations, including at the highest levels, the United States has strongly urged Moscow to withdraw its troops from Afghanistan. Every year since the invasion, the U.N. General Assembly has called for foreign troop withdrawal.

U.S. policy towards Afghanistan is based on achieving a negotiated political settlement based on four underlying principles: complete withdrawal of Soviet troops; restoration of Afghanistan's traditional independent and non-aligned status; self-determination of the Afghan people; and return of the refugees with safety and honor. As part of this effort, we support the ongoing U.N. proximity talks. However, these talks have not yet addressed the central issue of Soviet troop withdrawal. The Soviets have insisted that this is a bilateral issue between themselves and the Afghan regime.

The President's initiative, by emphasizing the need for negotiation between the parties directly involved in the conflicts, would force the Soviets to come to terms with the fundamental reality in Afghanistan — the existence of a broadly based national liberation movement. The second level of the new initiative supports and complements our commitment to the U.N. process to serve as a guarantor of a negotiated political settlement. U.S.-Soviet guarantees of non-interference by external forces would reaffirm arrangements already worked out between the warring parties. Such guarantees would apply both to the withdrawal of foreign troops and to the elimination of outside flow of arms. The third level, by providing generous assistance to war-torn Afghanistan, would assure the smooth reintegration of the massive refugee population into the economy and provide a basis for the reconstruction of the country.

3. Cambodia

The December 1978 invasion and subsequent occupation of Cambodia by Vietnamese troops created a major threat to the stability of Southeast Asia and a direct threat to Thailand. In addition, the earlier establishment of the Soviet base at Camh Ranh Bay, which is related to Moscow's support of Hanoi's military efforts, increased the danger of military incidents between U.S. and Soviet naval and air units. In diplomatic exchanges, the United States has urged Moscow to persuade Hanoi of the need for a political settlement based on the withdrawal of its troops, as advocated by U.N. resolutions, the ICK and ASEAN.

The United States strongly supports the efforts of the members of the Association of Southeast Asian Nations (ASEAN) to obtain a political solution to the problem of Cambodia based on the essential elements worked out by the 1981 U.N.-sponsored International Conference of Kampuchea (ICK): complete withdrawal of foreign forces; U.N. supervised free elections; and a U.N. peacekeeping force. The United States believes that a durable settlement acceptable to the Cambodian people and to their neighbors must be based on these principles. These same principles have been included in six successive resolutions adopted overwhelmingly by the U.N. General Assembly.

The President's proposal is an integral part of U.S. support for ASEAN and the leadership on the Cambodian problem which its members, as the countries most directly

concerned, have shown. The principles enunciated by the President in his address — negotiations, withdrawal of foreign forces, an end to hostilities — parallel those of the ICK. In July 1985, the ASEAN countries proposed indirect talks between the Cambodian resistance forces and a Vietnamese delegation including representatives of Hanoi's Cambodian clients. Such talks, if accepted by Vietnam, could lead to the negotiations between the warring parties called for in the President's initiative.

4. Nicaragua

In Nicaragua, a Soviet-supported regime has betrayed the democratic goals of the 1979 revolution, moving increasingly toward totalitarianism and generating a large and growing indigenous armed resistance. The Sandinistas' refusal to address the legitimate grievances of Nicaragua's armed and civilian opposition and the increasing reliance on force — both in its domestic and foreign relations — have led to spiralling regional tensions; Sandinista policies of force have taken a heavy toll in human lives and scarce economic resources and have threatened the region's fragile democracies.

U.S. policy toward Nicaragua is premised on four basic goals: internal reconciliation through implementation of promises made to the OAS in 1979 for a democratic, pluralistic society guaranteeing full civil, political and religious rights; termination of Sandinista support for insurgency in El Salvador and other Central American countries; termination of Nicaragua's military-security ties with the Soviet bloc and Cuba and the departure from Nicaragua of military-security advisors from those countries; and reduction of Nicaragua's military apparatus to a level of forces and types of armament compatible with those of other regional states.

The United States has consistently called on the Sandinistas to seek a peaceful resolution of Nicaragua's civil war by engaging in discussions with leaders of the armed resistance to address substantively the legitimate grievances which have compelled a resort to arms. Negotiations envisioned under the President's initiative would be directed toward eliminating the major sources of regional concern: the presence of large numbers of Soviet-bloc and Cuban advisors and technicians; the massive influx of military hardware from those countries; and the direct role of the Soviet bloc and Cuba in crafting Nicaragua's military, foreign and domestic policies. U.S.-Soviet negotiations on Nicaragua would complement the negotiations among the five Central American countries, mediated by the Contradora group, to seek a comprehensive settlement of the region's problems. The third stage is essentially a reiteration of our long-standing proposal to offer major economic and developmental assistance in exchange for substantive progress in meeting our basic goals, as described above.

5. Ethiopia

Our long-standing policy is to respect the territorial integrity of Ethiopia. We do not support the separatist movements active in that country. The insurgents are divided up into many different groups, the two largest of which are Marxist-oriented. Some of these groups have been supported by Libya.

Ethiopia is a key nation in the Horn of Africa, a strategically important part of the world that is torn by internal strife and regional political conflicts. Within Ethiopia, a repressive regime is at war with its people. We believe that no military solution is possible, despite the supply of large quantities of Soviet military aid and the presence of 1,700 Soviet military advisors and 2,500 Cuban combat troops. Moreover, pursuit of a military solution has led to cross border violence and serious aggravation of regional rivalries. The Ethiopian

leadership has not been willing to seriously negotiate dissident demands for greater autonomy. Given its large involvement, the Soviet Union has responsibility to help bring about peace within Ethiopia and with its neighbors. If the Soviets are willing to work for peaceful reconciliation in Ethiopia, the United States is prepared to increase its long-standing efforts to promote better relations among all the countries of the region.

SOURCE: United States Information Service, Embassy of the United States, Singapore, 25 October 1985.

BOOK REVIEW

Women's Work and Women's Roles. Economics and Everyday Life in Indonesia, Malaysia and Singapore. Edited by L. Manderson. Monograph No. 32. Australian National University, Development Studies Centre, 1983.

As Manderson has cogently argued in her introduction to this collection of twelve papers on women's work and women's roles in Indonesia, Malaysia and Singapore, the productive nature of the wide range of activities which women in this region, both past and present, have engaged and continue to engage in, has been consistently ignored and undervalued by latter-day administrators and academics alike, a fact which makes this volume a rare and welcomed addition to the increasing corpus of research publications on development issues in Southeast Asia. However, it has to be added that the range, approach and quality of the individual papers are as disparate and diverse as the activities they describe. In spite of Manderson's attempt to draw together the common themes which she sees as uniting the various papers, the term "monograph" employed in the abstract is clearly an exaggeration.

Regrettably, the introduction, which forms the first chapter of the volume, bases its theoretical argument — that of the increasing loss of female economic independence and autonomy due in part to the take-over of Western notions of the woman's role as primarily that of wife and mother, in part to the fact that newly-created job opportunities favour men — more on literature published elsewhere than that assembled in the volume itself. In fact, the evidence here seems rather ambivalent. Connor's paper on "Healing as Women's Work in Bali", for example, reports of the creation of lucrative job opportunities as masseuses for tourists along Kuta Beach; Price concludes in her chapter entitled "Rich Woman, Poor Woman: Occupation Differences in a Textile Producing Village in Central Java" that while women did lose their pre-eminence in cloth production in the course of technical changes, "it is important to recognize the wide range of skills which women have developed in the new processes, as well as the extent to which the old processes of hand-drawn batik have been maintained"; Fett, in her study of "Land Ownership in Negri Sembilan, 1900-1977" documents the substantial increase in female landholdings over the seventy-year period and Woodcrof-Lee's analysis of Indonesian Muslim perceptions of the roles of women reveals an Islamic image of woman as a devoted wife and mother that is as exacting if not more so than the Western one.

In addition to the above-mentioned papers, all worthwhile reading for the fine eye for detail which testifies to a close-range familiarity with the everyday lives of the women under study, two other papers stand out in this volume: those by Abeyasekere and Barnard.

Barnard's study of Malay women in the Muda Irrigation Scheme provides us with a highly differentiated picture of the nature of rural Malay households and the role and significance of female contribution to household income according to household type. Based on this intimate knowledge of farming households, she documents with great care the inadequacy of rural development programmes which see women merely as housewives, and overlook their dual roles as housewives and farmers.

A pleasure to read and exemplary in its penetrating illumination of the normally "bidden" and unrecognized women's work is Abeyasekere's "Women as Cultural Intermediaries in Nineteenth-Century Batavia". The integrating role of women as cultural intermediaries in a closed, multi-ethnic society, demonstrated by the everyday lives of everyday Batavian-born women, bear testimony to the creative role which women also play in the process of cultural change, normally seen to be the preserve of male culture heroes.

Most of the remaining papers in the volume betray less interest in the "everyday life" of women, preferring to dwell on conventional data and conventional arguments. Nonetheless, their inclusion in the volume does broaden the picture of women's work in the region and is certainly useful.

Altogether, the papers make a convincing case for the indispensability of women's work, the obstacles which they encounter due to the cultural definition of gender relations, and for the extraordinary resilience which they nevertheless continue to display, despite these odds, in order to ensure their survival and the survival of their families. Each individual paper is prefaced by a useful introduction by the editor, who is to be congratulated for having put this volume together. One only wishes that papers by scholars stemming from and working in the region itself could have been included as well.

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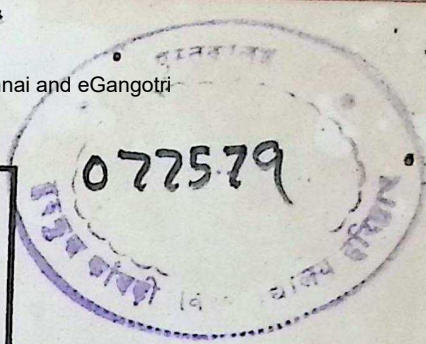
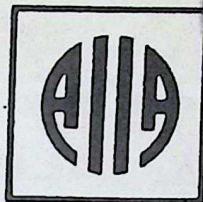
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